Alfred J. Blasco

THE ECONOMICS OF
INSTALMENT BUYING

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For

R. D. C.

PREFACE

Instalment buying is well established, conspicuous, important, and widely debated. An enormous literature concerning it has accumulated in the libraries. Despite these facts, there has been no one book to which a reader could turn for an up-to-date description of instalment practices and procedures and for a comprehensive analysis of the system's economic and social purposes and consequences. In what has been written, large areas of the subject have been neglected entirely. The instalment operations of retail merchants, in particular, have never been fully explored.

The present volume is designed to help fill these gaps. It has been planned and written with a varied audience in mind. Retail and wholesale distributors of consumer durables, manufacturers, bankers, other financial agencies, credit men, attorneys, public officials, economists, and students, all will find that an effort has been made to describe and discuss the aspects of the subject most important to them.

The author has used the term instalment buying for the title of the book, instead of the more common instalment selling, after careful deliberation. This decision is intended to emphasize the significance of the instalment system as a device used by consumers for spending their incomes more effectively in acquiring satisfactions, rather than its use as a device of sales promotion. The title is also intended to indicate that the study concerns itself with a single part of the broad field of consumer credit. Cash loans, charge accounts, and service credit are touched only insofar as is necessary for an understanding of the instalment method of buying goods and services.

The investigation that has led to the writing of this book was undertaken at the request of the Retail Credit Institute of America, which provided the funds necessary for the work. The study was set up on a basis that permitted the author to travel to all parts of the country in his search for data. To the officers, members, and staff of the Institute, the author is deepy indebted for a generous financial support and unfailing patience in awaiting the completion of a project necessarily long drawn out. He also wishes to express his great appreciation of the scrupulous care with which the organization has lived up to its original agreement to give him a free hand in reaching and publishing any conclusions to which his study led him. He has received frank criticisms and com-

ments, but at no time has he felt the slightest pressure to substitute others' opinions for his own. The responsibility for any errors of fact or interpretation therefore rests with him, not with them.

Acknowledgment of the author's indebtedness to the principal printed sources from which materials have been drawn will be found in the footnotes and bibliography. Much of his information, however, came from the personal surveys he was able to make in a great many stores in all parts of the country, and from discussions in their own offices and elsewhere with several hundred merchants, credit men, bankers, financial executives, public officials, economists, spokesmen for consumers and executives of trade associations, chambers of commerce, better business bureaus, and social agencies. These included both friends and foes of instalment buying. Many of them gave several hours out of busy days to answering the author's questions. Some of them opened their files to him without reservation. Space limitations prevent the listing of these men. To name a few would discriminate unfairly against the rest. The author must therefore content himself with acknowledging his indebtedness to them all and thanking them en masse.

Professor Ralph F. Breyer, of the University of Pennsylvania, is listed as the writer of one of the appendices. He also gave invaluable aid by finding, correcting, revising, and extending some of the statistical materials, and he collaborated with the author in the study of consumers' investments in durables, the results of which are embodied in this book.

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PART I

THE AMERICAN LEVEL OF CONSUMPTION AND ITS FINANCING

CHAPTER 1

THE CONSUMERS' INVESTMENT IN DURABLES

Instalment Buying and the Consumers' Investment in Durables.— Although several writers report the presence of rudimentary instalment buying all the way back to ancient times, its modern forms first appeared as recently as the early nineteenth century. The machines that made possible production of large quantities of standardized furniture in factories, for sale at relatively low prices, were invented about this time—notably power saws of various types and the turning lathe. It is no accident that the earliest known instances of formal instalment buying in the United States date to the same period and are found in the records of retailers selling furniture. From the outset, instalment buying served to facilitate the purchase of factory-made durables by consumers. Its economic and social significance can best be appreciated by keeping that fact in mind. It is one of the instruments by means of which consumers over the last century and a half have accumulated an enormous investment in durables of many kinds.

As innovators introduced new consumer durables or transferred old ones from home to factory production, instalment buying spread and grew. Household clocks, silver-plated ware, sewing machines, organs, pianos, and clothing—each in its turn was helped to expand by, and contributed to the growth of, instalment buying. Since 1900 the mechanization of consumption has progressed rapidly. One author finds in successive issues of Sears, Roebuck and Company's catalogue, for example, a graphic portrayal of technology transforming the home by transferring its drudgery from the hands of the housewife to machines. Each new machine used the instalment method to build its market.

The mail-order houses themselves moved into instalment selling hesitantly, but eventually followed the lead of other retailers selling such goods. By 1920 even the most conservative retailers were beginning to sell on instalments, the rise of the automobile had made instalment buying big business, and the invention of the finance company had given it ready access to the central money markets. At this point instalment buying finally attained social respectability and for the first time attracted attention as a major economic problem worthy of analysis by economists of high repute.

Being conditioned by the traditions of economic science, these analysts gave remarkably little attention either to the important part played by consumers' holdings of durables in sustaining American levels of consumption or to the function of instalment buying as a device facilitating the accumulation of these holdings. Economists in their day-to-day work rarely went beyond the conventional assumption that goods which have gone through their last sale by a business enterprise to a consumer have been consumed. This convention was strengthened with the expansion and refinement of statistical techniques in their application to economic analysis. Sale to the consumer is much easier to identify and measure than true consumption. Data were accordingly collected on that basis, and it was not generally appreciated that the procedure tended to conceal sweeping changes taking place in the technology of true consumption. In substance these changes amounted to the incorporation of large elements of "production" into the area of "consumption." They entailed accumulation and utilization of large amounts of capital by consumers. Overlooking these facts, the conventional analysis made no substantial distinction between consumers' purchases of durables and their purchases of other goods and services. Instalment buying thus came to be treated as merely another form of consumption credit, having objectives and purposes quite different from those underlying the accumulation and distribution of production capital and leading to quite different results.[1]

Growth of the Consumers' Investment.—Although it is possible, as we shall see shortly, to estimate the consumers' present holdings of durables, no accurate estimate of the increase in these holdings over the last century and a half can be constructed. Even for the period since 1900 only crude guesses are possible. Thus it can be estimated that a moderately well-to-do home in 1900 would have had an original investment of not more than $150 or $200 in such devices as a sewing machine, an ice refrigerator, a cooking stove, and a few odds and ends of laundry, cleaning, and transportation equipment. Nowadays a similar home would have an original investment of perhaps $1,000 or $1,500 in such equipment as an electric sewing machine, a mechanical

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[1] Since no one has as yet gone through the labor of compiling a definitive history of instalment buying, generalizations of the sort given above must be drawn from fragments of fact reported in such sources as D. L. Cohn, *The Good Old Days;* W. C. Plummer, "Consumer Credit in Colonial Philadelphia"; H. R. Mussey, *The "Fake" Instalment Business;* E. R. A. Seligman, *The Economics of Instalment Selling;* R. Nugent, *Consumer Credit and Economic Fluctuations;* E. W. Martin, *The Standard of Living in 1860;* and W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices.* Plummer's study of colonial Philadelphia is the only historical study of consumer credit the present author has found that is based on a systematic analysis of original sources.

Bibliographic Note: Items are cited in the footnotes by author and title alone if a complete citation appears in the bibliography in Appendix C. Complete citations are given in the footnotes for any items omitted from the bibliography.

refrigerator, a vacuum cleaner, one or more radios, various small electrical appliances, and an automobile bought at second hand.

The particularly rapid growth of the consumers' investment since World War I is illustrated in data on automobile registrations that are too well known to require reproduction here, and in figures for individual products such as those in Tables 1 and 2. Only 5,000 domestic electric refrigerators were sold to American users, Table 1 shows, in a year as recent as 1921. Thereafter the number sold increased rapidly year by year to a peak of 2.3 million in 1937, dropped back sharply to 1.3 million in 1938 (the industry's first serious depression), then recovered rapidly and climbed to a new and much higher peak of 3.5 million in 1941. Wartime restrictions then cut production and sales

TABLE 1

ESTIMATED SALES AND RETAIL VALUE OF DOMESTIC ELECTRIC REFRIGERATORS IN THE UNITED STATES, 1920–1946, INCLUSIVE

Year	Total Units (000 omitted)	Retail Value (000 omitted)	Average Retail Price per Unit	
			Dollars	Index (1926—100)
Up to 1920	10	$ 6,000	600	154
1921	5	2,750	550	141
1922	12	6,300	525	135
1923	18	8,550	475	122
1924	30	13,500	450	115
1925	75	31,875	425	109
1926	205	79,950	390	100
1927	375	131,250	350	90
1928	535	178,690	334	86
1929	778	227,176	292	75
1930	791	217,525	275	71
1931	906	233,748	258	66
1932	798	155,610	195	50
1933	1,016	172,720	170	44
1934	1,283	220,676	172	44
1935	1,568	253,648	162	42
1936	1,996	327,344	164	42
1937	2,310	395,010	171	44
1938	1,254	215,688	172	44
1939	1,900	321,100	169	43
1940	2,600	395,200	152	39
1941	3,500	542,500	155	40
[a]1942	520	–	–	–
1945	264	–	–	–
1946	2,100	434,700	206	53

[a] No figures compiled for 1943 and 1944. Figures for 1942 and 1945 insufficient to permit estimate of value.

Source: 1920–1937, N. H. Borden, *The Economic Effects of Advertising*, Chicago, Richard D. Irwin, 1944, p. 397. 1938–1946 inclusive, *Electrical Merchandising*, January, 1947.

virtually to the vanishing point, and they remained well below the 1937 and 1941 peaks in 1946. Measured by dollar volume, the expansion up to 1941 was less spectacular, since the average retail value of refrigerators dropped 74 per cent during the period. Nevertheless, in 1941 consumers invested considerably more than half a billion dollars in refrigeration they planned to use up over a period of 13 or 14 years.[2] In 1946 consumers invested nearly $435 million in household refrigeration despite the failure of production to recover to 1941 levels. This result followed partly from the rise in prices, partly from the fact that consumers on the average bought larger boxes in 1946 than in 1941.

Even more significant in evaluating instalment buying is the tremendous increase in the number of domestic electric refrigerators in use, as shown by Table 2. Between 1926 and 1942 the number of refrigerators in use grew from 150,000 to 19.9 million, or nearly 133 times, and the war years reduced this figure very little. By the end of 1946 refrigerators in use reached 21.4 million, a new high. The percentage of wired homes with such refrigeration rose from 1.1 in 1926 to 72.0 in 1941, fell back to only 67.5 in 1945, and recovered to 69.1 in 1946. These figures reveal very clearly the tremendous cushion against the hardships of war provided by large accumulations of durable goods. At the end of 1945, despite a four-year stoppage of production, the number of electric refrigerators in use was actually higher than at the outbreak of hostilities and had fallen only 180,000 from the peak reached at the end of 1942. The country could not buy refrigerators but was still getting a great deal of refrigeration.

Consumer Durables Before 1800.—In the absence of meaningful statistics, comparisons over longer periods and covering all the present-day holdings of a household must be impressionistic. Thus Carl Crow reports that in 1783 the "standard sized frame house appears to have consisted of a single room, 18 by 24 feet" and "a low, windowless attic." Since kitchen stoves had not yet been invented, cooking was done in open fireplaces, some of them equipped with a Dutch oven. Most of the family sat on homemade benches and stools. Few families had chinaware or glass. They usually ate from trenchers, that is, blocks of wood hollowed out. Crude wash basins, pails, and dippers took care of personal cleanliness. Such present-day commonplaces as scissors and bed linen were scarce enough and consistently valuable enough to be mentioned in wills.[3]

Although details are not always certain, the general pattern seems clear enough. Much of the great change in the American level of living

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[2] For estimates of the life span of refrigerators see R. Cox and R. F. Breyer, *The Economic Implications of Consumer Plant and Equipment*, p. 57.

[3] C. Crow, *The Great American Consumer*, pp. 3–8.

during the last century and a half has consisted of acquiring and using stocks of durable and semidurable goods designed to make life and work at home more interesting, more rewarding, and less laborious.

Consumer Housing in 1860.—For the period around 1860, the painstaking investigation of one scholar has provided very comprehensive information.[4] Few of his descriptions are quantitative or precise, but

TABLE 2

Estimated Number of Electric Refrigerators in Use, and Ratio of Users to Number of Wired Homes, 1926–1946, Inclusive

Year	Estimated Number of Domestic Electric Refrigerators in Use as of December 31 (000 omitted)	Percentage of Wired Homes with Electric Refrigerators
1926	150	1.1
1927	755	4.3
1928	1,223	6.4
1929	1,850	9.4
1930	2,610	12.8
1931	3,499	17.1
1932	4,300	21.6
1933	4,900	24.6
1934	6,020	29.3
1935	7,250	34.2
1936	9,000	41.1
1937	11,271	50.6
1938	12,101	51.7
1939	13,701	56.0
1940	16,100	63.0
1941	19,400	72.0
1942	19,900	71.8
1943	19,864	70.9
1944	19,792	69.6
1945	19,720	67.5
1946	21,440	69.1

Source: 1926–1941, N. H. Borden, *The Economic Effects of Advertising*, Chicago, Richard D. Irwin, 1944, p. 398. 1942–1946, *Electrical Merchandising*, January issues.

they permit much more meaningful judgments than are possible in looking back to earlier periods.

At the outbreak of the Civil War, only one eighth of the population lived in cities of 8,000 or more; four fifths lived on farms. Although housing varied enormously in type and quality among both groups, for the great majority of the people it fell far below today's ideas of what mere health and decency require. Commonplace comforts of today were virtually unknown.

[4] E. W. Martin, *The Standard of Living in 1860*.

Among the better housed working classes in the towns and cities of the North, bathtubs and inside toilets were lacking. Some even lacked an outdoor privy. The kitchen ranges on which the cooking was done provided almost the only heat in winter. Many houses had only candles for lighting at night. For floor covering they used rag rugs, very cheap carpeting, and matting. Walls were most commonly bare or whitewashed. Factory-made furniture (in the sale of which, it will be recalled, instalment buying had begun to develop forty years before) was widely used, but even with the aid of the instalment system many families could buy only the cheapest qualities. In the poorest homes the furniture was hammered together from boards and boxes. The cheapest grades of porcelain, crockery, and glass served as tableware, although some families may have acquired knives, forks, and spoons of silverware.

All this, it must be remembered, applies to the better housed working people. The extremely poor, including large numbers of squatters in and around the cities, lived much more miserably.

Wealthy Southern planters lived in comparative luxury, although they lacked conveniences regarded as essential today in homes of modest comfort. Most Southern housing was crude and unpretentious even for its time. Many planters lived in frame houses of four or five rooms whose unpainted floors were bare or covered with handwoven rugs. Local artisans or the planters' own workmen made the furniture from local woods. People cooked chiefly in frying pans and Dutch ovens.

Yeoman farmers lived in anything from one-room log cabins to comfortable brick houses. Most common were small houses of logs or of loosely boarded frame construction, scanty homemade furniture, no glass windows, and no lighting except from a fireplace that was often built of sticks and mud. Through most of the Reconstruction period a Southern rural couple could set up housekeeping with a few cheap cane-bottom "straight" chairs, a rocker, an iron bed with springs and mattress, a bureau, a kitchen safe with tin drawers, a cooking stove, a few pots and pans, a set of cheap dishes and kitchen utensils, a water bucket, a wash pan, and a mirror. To buy even this modest outfit, newlyweds needed credit from the country store.[5]

The poor whites still lived like pioneers in one-room, often windowless cabins built of unhewn logs, inadequately chinked, with earth floors and the crudest of homemade furniture. Sometimes they owned little besides this furniture and a rifle. Their clothing was spun and woven by the women of the family, and they lived on what they could provide for themselves. Primitive living conditions that have persisted

[5] T. D. Clark, *Pills, Petticoats, and Plows: The Southern Country Store.* Indianapolis, Bobbs-Merrill Co., 1944. P. 308.

to our own day among the mountain whites in a few communities show only too clearly what life must have been like for many families when all farms and villages were isolated.[6]

As for the western frontier areas, Martin describes what he calls one of the best homes in Kansas in 1862. The envy of many neighbors, it was a one-room cabin built of squared timber. Although it boasted of glass window sashes that opened up and down, it had an open fire and a single pot. Instead of chairs, the occupants used nail kegs and packing boxes. They had no china, but ate from tin plates and mugs with iron spoons and two-pronged forks. The floors were bare, and the kitchen furniture consisted of a table and a set of shelves.[7]

Consumer Durables in 1860.—Household equipment, appliances, and furnishings were still primitive in most homes at the outbreak of the Civil War, when judged by today's standards, although progress had been made since 1800. New York in 1856 had 1,361 baths and 10,384 water closets for a population of more than 630 thousand. Boston's 180 thousand people in 1860 had only 31,098 sinks, 10,141 lavatories, and 13 shower baths. Central heating was a luxury and, where it had been installed, was commonly limited to the principal floor. Even in wealthy homes bedrooms were heated by fireplaces or not at all. Large rugs of the kinds now in common use had not been manufactured. The domestic ice refrigerator was still a luxury not widely used. Although spinning and weaving had been largely transferred from home to factory, men's clothing did not shift entirely to factory production for another decade or more. Factory production of women's ready-to-wear did not become dominant until much later.

For long-distance travel people relied upon common carriers. In their turn, the turnpike, stagecoach, steamboat and railroad had made travel progressively less costly and more convenient, comfortable, and rapid. Local transportation had advanced considerably less. In most cities people walked to their destinations. Travel between neighboring towns or between farm and town depended chiefly upon saddle horses, buggies, and wagons owned by the travelers. There are no data as to the numbers of buggies and wagons in existence.

The Beginnings of Standardized Abundance.—The major contribution of the American economy to its people—an abundance of standardized goods for consumers with moderate and low incomes—had begun to make itself manifest. By 1860, Martin estimates, productivity in the United States had risen to levels such that most American fam-

6 See, for example, the description of certain communities in the Blue Ridge Mountains given by M. Sherman and T. B. Henry, *Hollow Folk*. New York, Thomas Y. Crowell Co., 1933.

7 Martin, *op. cit.*, pp. 139, 140.

ilies could spend between 5 and 10 per cent of their incomes to satisfy needs less pressing than those for food, clothing, and shelter. In response to that spending power, the economy developed what Martin believes to be the two distinctive elements in the content of the American standard of living. First was the large output, in every category of consumption. Second was the particularly great output of goods of uniform, standardized pattern.[8]

Changes since 1860 have for the most part continued the two trends Martin notes. Large quantities of goods, especially large quantities of standardized goods designed for the mass of consumers, continue to be a central element in the American level of consumption. Many goods for many consumers has been the principal goal of the American economy. Conspicuous among these goods have been the durables whose growth has appeared not only in the size of the flow from the factories' gates, but also in the accumulation by consumers of enormous, widely distributed stocks.

The Measurement of Consumers' Holdings.—It would be helpful if consumers' holdings of durables could be measured in units other than dollars' worth. For example, one author estimates that in 1929 consumers held automobiles representing 1,050 billion unused car miles.[9] By 1935 these consumer holdings had dropped to about 675 billion car miles, partly because the number of cars registered decreased and partly because the average unused mileage per registered car fell from 45,000 to 30,000 miles. Another author estimates that in 1938 the consumers' inventory of unused car mileage stood about where it had in 1935.[10] During the next three years, heavy purchases of new cars expanded this inventory substantially and thus provided something on which consumers could live for several years after the war stopped production in 1942.

Estimates of this sort unfortunately are not feasible for most durables or when all durables are combined into an aggregate. Here resort must be had to measuring the dollars' worth of goods held by consumers. Table 3 summarizes the earliest estimate of this sort that has come to the writer's attention. It concludes that in 1935 consumer holdings of durables and semidurables (listed as "personal property") totaled $46 billion and represented 12.6 per cent of the wealth of the United States, estimated at $365 billion. These goods and residential housing, which between them make up the bulk of the investment in durable goods used directly by consumers for their own satisfaction, amounted to $130 billion or 35.6 per cent of the total.

[8] Martin, *op. cit.*, p. 402.
[9] J. W. Scoville, as quoted in T. H. Smith, *The Marketing of Used Automobiles*, p. 36.
[10] Smith, *loc. cit.*

Since concepts of national wealth and its measurement are far from certain and precise, statistics such as these must be used cautiously. They serve well enough, however, to show the very great importance to the economy of consumers' holdings of durables. They also make clear the size of the financing task these holdings entail.

The Consumers' Investment in Durables, 1940 and 1943.—Progressive refinement of basic statistics on consumption now makes possible considerably more reliable estimates of consumers' holdings of durables. The present writer and a colleague, Ralph F. Breyer, have accordingly worked out the aggregates presented in Table 4. On January 1, 1940, consumers of this country held durable and semidurable goods representing a depreciated investment of $35.1 billion. The holdings in question included all goods other than real estate that had an average life in use of more than six months. Three years later, on January 1, 1943, the aggregate depreciated investment had climbed to nearly $50.6 billion. Two thirds of the increase reflected a rise of approximately 25 per cent in the general price level. Even when measured in 1939 dollars, however, the consumers' investment at the beginning of 1943 had grown to nearly $40.1 billion.

In each of the two years, goods used in housing and household operation made up approximately two fifths of the total. Transportation equipment and accessories provided another one fifth in 1940, but less than one sixth in 1943 after production had been suspended for two years. Clothing, accessories, and jewelry ranked after household goods but before transportation in both years. Durable and semidurable goods classified under recreation, medical care, and death represented a relatively small share of the total investment but came to very substantial absolute amounts.

The Significance of the Consumers' Investment.—The meaning of these figures can best be appreciated by comparing them with other pools of wealth. Such comparisons can be made only in broad strokes, since the available statistical measures are very crude. They indicate, however, that at the outbreak of World War II, consumers' accumulations of durables and semidurables represented about one tenth of this country's total wealth. This can be put another way by saying that maintenance of consumption at the levels it had reached in this country during the middle 1930's depended upon having one in every ten dollars of the national wealth in the form of consumers' goods that had passed out of the market. If residential real estate is added to the total, durables and land used directly by consumers for the satisfaction of their own needs in the middle 1930's represented nearly one third of the wealth of the nation.

Another comparison is also significant. If the value of the land alone is eliminated from the value of the residential real estate used by consumers in the 1930's, there is left some $50 billion as the aggregate value of residential buildings. Added to $35 billion of durable and semidurable goods, this gives a total of $85 billion in what may be called consumer plant and equipment. In 1935, according to estimates by the National Resources Committee, this country had approximately

TABLE 3

WEALTH BY SEGMENTS OF THE AMERICAN ECONOMY, 1935

(Billions of dollars)

Government and finance (excluding public education)	65
Federal: Land, buildings, equipment and inventories (including gold)	16
State and Local: Land, buildings, and equipment, exclusive of public education	33
Banking and Finance: Inventories and capital assets	16
Utilities	51
Services to the consumer (including public education)	27[a]
Agriculture	39
Land and buildings	33
Machinery	2
Livestock	4
Manufacturing: Inventories and fixed capital	31
Trade: Inventories and fixed capital	13
Mining: Inventories and fixed capital	6
Construction: Inventories and capital assets	1
Miscellaneous	—[b]
Residential housing	84
Personal property	46
Total national wealth	365

[a] The wealth given for services includes, in addition to the value of property of public educational institutions, an estimated value of 8 billions of dollars of privately owned tax-exempt property such as churches, benevolent institutions, schools, libraries, and museums.

[b] The miscellaneous segment is estimated to be less than one-half billion dollars and is therefore not included.

Source: G. C. Means and others, *The Structure of the American Economy*, Part I: "Basic Characteristics," Washington, Natural Resources Committee, 1939, p. 376. The methods used to estimate national wealth are described on pages 374, 375. The authors warn the reader "that these estimates are extremely crude and should be used with the utmost caution."

$105 billion in the form of business plant and equipment. Investment in consumer plant and equipment thus represented a total four fifths as large as the corresponding investment of business. It was three fifths as large as the $140 billion representing investment in "productive plant and equipment" by business, agriculture, and Government combined.

A Neglected Problem in Economics.—Economists have given surprisingly little attention to this accumulation of consumer goods. Analysts of the business cycle, it is true, have repeatedly called attention to the influence of durability in causing or intensifying economic fluctuations. But their detailed analyses have tended to concentrate upon in-

TABLE 4

CONSUMERS' INVESTMENT IN ALL CONSUMER DURABLE AND SEMIDURABLE COMMODITY LINES AS OF JANUARY 1, 1940 AND 1943

(Millions of dollars)

Commodity Line	January 1, 1940	January 1, 1943	
	1939 Prices	1939 Prices	1942 Prices
Clothing, accessories, and jewelry:			
Jewelry and watches	2,137.0	2,377.0	3,622.5
Shoes and other footwear	1,222.0	1,541.7	1,800.7
Clothing and accessories, except footwear	5,701.1	6,694.2	8,675.7
Total	9,060.8	10,612.9	14,098.9
Household Operation:			
Furniture	5,599.0	6,710.1	8,515.1
Floor coverings	1,444.6	1,672.9	2,097.8
Refrigerators, washing and sewing machines	2,275.4	2,866.5	3,095.8
Miscellaneous electrical appliances except radios	824.6	1,106.9	1,267.4
Cooking and portable heating equipment	1,397.9	1,637.0	2,144.5
China, glassware, tableware, and utensils	1,310.8	1,521.1	1,829.9
House furnishings and equipment	1,812.0	2,050.5	2,647.5
Products of custom establishments	55.8	67.5	84.6
Writing equipment	108.8	135.0	142.6
Tools	195.6	293.8	319.7
Total	15,024.5	18,061.3	22,144.9
Medical Care and Death:			
Opthalmic products and orthopedic appliances	401.4	608.7	630.0
Monuments and tombstones	120.3	126.5	141.9
Total	521.7	735.2	771.9
Transportation:			
Automobiles	6,312.8	5,894.1	7,703.6
Tires and tubes	323.6	163.3	223.6
Parts and accessories	425.1	473.0	632.4
Luggage	127.3	154.8	196.1
Total	7,188.8	6,685.2	8,755.7
Recreation:			
Radios, phonographs, parts, and records	1,146.0	1,703.6	1,991.5
Pianos and other musical instruments	877.3	827.3	1,112.7
Books and maps	556.8	643.0	651.4
Wheel goods, durable toys, and sports equipment	417.6	467.2	578.9
Boats	34.9	41.1	47.1
Nondurable toys and sports supplies	265.6	303.5	394.2
Total	3,298.2	3,985.7	4,775.8
Grand Total	35,094.0	40,080.3	50,547.2

Source: R. Cox and R. F. Breyer, *The Economic Implications of Consumer Plant and Equipment*, pp. 10–18. Since these figures are still rather rough estimates, those who use them should familiarize themselves with the details of the statistical procedures used in compiling them, as described in the original source.

vestments intended to be "productive" in the sense of yielding a monetary return.

Students of the problem of market saturation have also given some thought to the consumers' stock of durables, and specifically to their stock of automobiles. To these students, consumers' holdings have been primarily an obstacle to sales of new goods. They have complained, for example, that every time a dealer sells a new car he must also sell on the average two old ones traded in. Only rarely has anyone pointed out that possession of a large stock of marketable used cars is important in making it possible for consumers to buy so many new ones.

Even less attention has been given to the significance of the consumers' holdings in determining what kind of automobile transportation they get. It has seldom been observed that how well consumers are served depends primarily not upon what is produced in any year but upon the stock—its size, its distribution among types and qualities of transportation, and its availability to individual consumers.

Outside the automobile business, in lines where the trade-in problem has not assumed such formidable proportions, the consumers' accumulation of durables and its social functions have received even less attention. Little has been done beyond trying to estimate when consumers will have all the radios, say, or electric irons or gas ranges they are likely to want at any feasible prices. Only in residential real estate has the accumulated pool of goods received even an approximation of the attention its importance deserves. Of late, emphasis has been put even for real estate upon the production of new housing, both because housing is short and because construction is expected to provide a great many jobs. By and large, however, the production and sale of new houses is still considered only one important task of the real estate trade, much of whose effort continues to be devoted to maintaining and constantly redistributing among consumers an existing stock of housing that changes slowly as new housing comes in and worn-out housing is torn down or abandoned.[11]

Distribution of the Consumers' Investment in Cars.—Consumers' holdings of durables are by no means equally distributed among the country's population. Table 5, for example, shows that the existent value in automobiles is heavily concentrated on relatively few cars. As of 1938, 30.3 per cent of the cars in use in the United States were worth \$50 or less, according to this estimate, and 62.8 per cent were worth \$200 or less. Only 37.2 per cent were worth more than \$200.[12] The

11 The economic functions of consumer's holdings of durables are discussed more fully at various places below.

12 T. H. Smith, *The Marketing of Used Automobiles*, p. 19, arrives at an aggregate of \$4.4 billion for automobiles in 1938, a figure considerably smaller than that given in Table 4 for 1939. The difference is apparently due chiefly to a large addition of new cars to the stock

aggregate value of cars worth more than $200, however, represented 72.7 per cent of the aggregate value of all cars. At the other extreme the 30.3 per cent of the cars worth $50 or less represented only 5.3 per cent of the aggregate value of all cars.

The unevenness of the distribution of the values held by consumers in automobiles is important in measuring changes in the American level of consumption over recent decades and evaluating the problems of financing they have raised. So also is the fact, suggested by Table 5, that the average value of cars in use is quite low.[13]. It is a serious mistake to assume, as is sometimes done carelessly, that each car-owning family has a $700 or $1,000 or $1,500 automobile. Most Americans have much smaller investments than this in their cars. Most of them [14] buy considerably less than a complete car mileage when they buy cars. They buy what is left of the life of cars that one or more preceding owners have begun to wear out.

TABLE 5

DISTRIBUTION OF CARS IN USE IN THE UNITED STATES BY VALUE, 1938

Average Value Class	Per Cent of Number of Cars in Class to Total Number	Per Cent of Value of Cars in Class to Total Value
$ 25 or less	14.2	1.9
26–50	16.1	3.4
51–100	10.2	4.2
101–200	22.3	17.8
Over 200	37.2	72.7
Total	100.	100.

Source: T. H. Smith, *The Marketing of Used Automobiles*, p. 19.

Distribution of Other Durables.—Data do not exist upon which to build estimates of the distribution of durables other than autos. Furniture has a well-developed secondhand market. Similarly, the rebuilding of some kinds of appliances for resale had developed into a substantial business even before the war. It is quite clear, however, that nothing

in 1939 and to differences in the depreciaticn formulas used. Cox and Breyer, being concerned with a measure of the remaining life of the existent stock of durables, used a straight-line depreciation formula. Smith, being concerned with the resale value of the stock of cars, used a formula under which cars depreciate very sharply the first year and less sharply thereafter. Substitution of the straight-line formula would make less extreme the differences in value between newer and older cars but would not seriously change the conclusion drawn in the text.

[13] Smith, *op. cit.*, pp. 20, 21, estimates the average value of automobiles owned by consumers in 1938 as $187. More than half were worth less than $140.

[14] Smith, *op. cit.*, pp. 16, 17, estimates somewhere around three fifths of them in the 1930's.

comparable with the large organized market for used cars has developed in these trades.

Trade-ins, even though they were common before the war in the sale of many durables, performed functions quite different from those of the automobile trade-in. Frequently the trade-in values were fictitious, being set up as devices of sales promotion offset by higher margins. No widespread market for reselling trade-ins has been developed, many of those received simply being junked. Above all there is no stratification of consumption under which buyers habitually buy goods new, or at second or third hand, expecting to feed them back into the market after two or three years and then to purchase newer models. The distribution of the consumer investment in these goods has been determined not so much by the age class into which consumers buy as by the original value and the length of the period since purchase. Consumers of modest income reduce their expenditures for these durables through purchasing cheaper new goods rather than through purchasing the stock of utility left by first purchasers in goods of originally higher price.

The reasons for the inability of the automobile industry to sell new cars whose original value was low have never been adequately worked out. Automobiles and housing apparently differ from practically all other consumers' goods in that a majority of the buyers derive greater satisfaction from purchasing the utility left by preceding owners in used goods than from purchasing the utilities in new goods of comparable prices. A careful analysis of the reasons for these phenomena and their social effects is badly needed.

Consumer Durables and Welfare.—Whether consumers have gained or lost from accumulating so many durables is an important issue in evaluating instalment buying. If the accumulation and widespread distribution of these goods are in themselves undesirable, there can be no justification for any elaborate system of accomplishing them, whether on instalments or otherwise. The problem is basic and must be dealt with.

Attacks on the social desirability of these large accumulations take various forms. One springs from the curiously inverted approach to economic life made by many students who look to the economy for a multitude of jobs rather than for an abundance of consumer satisfactions. Since people who already have houses, automobiles, refrigerators and all the rest obviously will want new ones less avidly than if they had none at all, some commentators see the accumulation of durables as a bar to prosperity. Carried to its logical conclusion, this thesis is equivalent to removing consumption entirely from the concept

of "prosperity." It forgets that the validity of taking jobs and processing as measures of well-being rests upon an assumption that these are accurate indicators of the flow of satisfactions to consumers.

Even within narrower limits the assumption that the first function of the economy is to provide jobs does not establish a clear-cut case against those accumulations. One may sympathize with producers and distributors who lament the necessity of maintaining and continuously redistributing an already existent stock of goods. It is by no means certain, however, that the large stock retards production. To the automobile industry used cars are in fact one of its principal assets. They are an important pool of buying power. If there were no large market for used cars, most buyers of new cars would have to buy less frequently, and the producers' market would be reduced rather than increased.

Another line of attack upon the social utility of durables starts from doubts as to whether the multitudes of things our economy provides for consumers are really very useful anyway. It is admitted that many present-day consumption goods not previously available are in fact tantamount to older goods changed in form and quality, often virtually changed in nature; but it is argued that the changes have not necessarily been good. Such an attack criticizes the economy for producing too many gadgets, especially too many ugly gadgets. Implicit in the argument is the assumption that mankind could use its energies for better things.

Some of these criticisms can be dismissed as trivial or absurd, others as expressions of mere differences in taste. Still others must be condemned as expressions of a snobbery that crops up here and there in discussions of instalment buying. Some commentators feel that the common people have no business struggling to acquire kinds of goods only the aristocracy could aspire to in years gone by. It may be true, as Martin says, that the years since 1860 have added little or nothing to the quality of top-grade houses, furniture, floor coverings, and tableware, but this is not really condemnatory when coupled with a conclusion that this country has progressed substantially since 1860 in making it possible for a greatly increased proportion of the population to buy products of good quality.[15]

Some criticisms of so-called gadgets must be attributed to lack of imagination more than to anything else. Thus Martin is a bit hasty in dismissing as mere "conveniences" improvements in housing that include "electric lighting, automatic feeders and controls for furnaces, really dependable plumbing, and the long list of labor-saving devices."

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[15] Martin, *op. cit.*, p. 105.

Inventions that reduce labor in the home are not negligible because they affect only the home and not the factory.

Another line of attack on gadgets lies largely outside the proper sphere of this study. It is some variant of the doctrine that for all his wealth of material things today's man is less happy than his ancestors. One is always tempted, as one looks back over man's history, to see golden ages when life was delightful for all, but which, in fact, never existed. Until objective measures are devised, who can say whether men have gained or lost in happiness?

The answer of most Americans to these questions is written in the record. They have wanted things avidly, worked hard to get them, and used the instalment method freely for the purpose. Any author may properly express doubts as to their standards of value. In fairness, however, he must judge the tools they use by what they, not he, are trying to accomplish. His evaluation of instalment buying must turn, therefore, upon how it has affected the production, maintenance, and distribution among individuals of the stock of durables essential to an American's idea of the American standard of living.

CHAPTER 2

THE SUPPORTING STRUCTURE OF INSTALMENT BUYING

Instalment Buying and the Consumers' Investment.—That instalment buying has played a significant part in the accumulation of the consumers' investment described in Chapter 1 is indicated by Table 6. The consumers' holdings are divided by this table into three groups. Two of these are durables, i.e., goods whose life span will average three years or more. The third is the semidurables, i.e., goods whose life span will average more than six months but less than three years. In the first group of durables are included goods, 25 per cent or more of whose sales were made on instalments in most years before the war. For the second group of durables and for semidurables, instalment buying has been relatively unimportant.

Nearly two thirds of the consumers' investment is in the durables where instalment buying plays an important part. About one third is in goods for which instalment buying has played a very minor role.

Such statistics as these justify the position taken in this study that the economic and social significance of instalment buying can be understood only if the significance of consumer durables is understood. The instalment system is, as we shall see, a device useful in the promotion of sales by manufacturers and distributors. Like other forms of consumer credit service, it is also a device which helps consumers make an effective distribution of their expenditures over time. Its distinctive contribution, however, the characteristic that distinguishes it from other forms of sales promotion and consumer financing, lies in its relation to the accumulation and maintenance of consumer capital. What good and what ill it has done grow out of the fact that it is one of the most conspicuous of the instruments the people of this country have used to expand enormously their production, ownership, and consumption of consumer durables.

What Instalment Buying Is.—For present purposes, instalment buying has been defined as a business procedure under which consumers purchase semidurables and durables other than real estate in

TABLE 6

CONSUMERS' INVESTMENT BY TYPES OF COMMODITY LINES AS OF JANUARY 1, 1940 AND 1943

Type of Commodity Line	Millions of Dollars			Per Cent of Total Durables			Per Cent of Total Durables and Semidurables		
	January 1, 1940	January 1, 1943		January 1, 1940	January 1, 1943		January 1, 1940	January 1, 1943	
	1939 Prices	1939 Prices	1942 Prices	1939 Prices	1939 Prices	1942 Prices	1939 Prices	1939 Prices	1942 Prices
Consumer durable "instalment-credit" commodity lines	22,764.0	25,431.7	32,406.9	84.0	82.9	84.1	64.9	63.5	64.1
Other consumer durable commodity lines	4,350.5	5,243.1	6,107.4	16.0	17.1	15.9	12.4	13.1	12.1
Consumer semidurable commodity lines	7,979.5	9,405.5	12,032.9	–	–	–	22.7	23.4	23.8
Total	35,094.0	40,080.3	50,547.2	100.0	100.0	100.0	100.0	100.0	100.0

Source: R. Cox and R. F. Breyer, *The Economic Implications of Consumer Plant and Equipment*, Washington, D. C., Retail Credit Institute of America, 1944, p. 20.

order to obtain from them directly the satisfactions they provide, agree to pay for them in a series of payments extending over a period of three months to five years, and obtain possession of them when only a fraction of the total price has been paid.[1] Except where a purchase is added or linked to an earlier one still being paid out, the agreement is usually, but not always, embodied in a formal contract under which the seller reserves the right to recover the goods sold in the event the buyer fails to pay out. Additions to an outstanding contract are more likely to be handled by the customer's signing a sales slip or nothing at all. The contract usually is filled in at the time of purchase, as required by law in some jurisdictions and indeed for the entire country during the effectiveness of the Federal Reserve Board's Regulation W. Sometimes an impatient customer will insist upon signing in blank. In practice the written agreement does not describe the actual transaction very accurately. A considerable degree of deviation is permitted and even expected by the seller to meet changes in the circumstances of the buyer.

In the majority of instalment sales (but by no means in all of them), an explicit charge for the credit privilege is added to the price of the goods. This represents a sharp change from the policies prevailing before 1920, when it was the almost universal custom to include the credit service in the quoted price of the goods and to bargain with the customer over discounts for cash. As we shall see, the credit charge takes many forms in practice, and there has been much vigorous controversy as to which form is best, as well as to whether there should be any explicit charge at all.

Usually the purchaser makes a down payment substantially larger than the successive instalments to be paid later. Under wartime restrictions imposed by the Federal Reserve Board, to be described more fully in Chapter 8, a substantial down payment was required. In normal times, however, the down payment is sometimes small and may be waived entirely when the unit value is small or the purchase is added to an outstanding contract, or if the seller is using "easy credit" as a device of sales promotion. Some stores hold all customers rigidly to one or two standardized credit plans. Thus, some clothing stores offer credit only on a plan providing for, say, ten weekly or three monthly instalments, with or without down payment.

The instalment transaction may be a sale made by a retailer who collects all the payments and finances the business in ways that do not directly concern the purchaser. Alternatively, it may require the customer to make his payments directly to a bank or financing agency that

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1 A minimum limit has been set at three months in this definition because many of the available statistics have been compiled on that basis. In trade practice any transaction with two or more scheduled payments is considered an instalment sale.

buys the paper from the retailer. Yet again, the purchase may take the form of a cash loan by the financing agency to a customer who pays the retailer in a lump sum.

The Names Given Instalment Buying.—The number of names under which instalment buying appears has been limited only by the ingenuity and taste of the sellers. Use of the term "instalment" to designate a fractional payment apparently antedates application of the plan to the sale of factory-made furniture, since Nugent has found an advertisement offering horses for sale on annual instalments as early as 1789.[2] *A Dictionary of American Usage* indicates that the more specific terms, "instalment man" and "instalment plan," were in general use by 1886.

With the spread of the system in recent years, some retailers have sought to obtain a differential advantage by coining new names. The plan has thus appeared under such designations as lease plan, contract plan, budget plan, deferred payments, divided payments, easy payments, easy terms, convenient payments, cash-time plan, club account, 90-day plan, and four-month plan. In Great Britain the name most commonly used is the hire-purchase plan, although technically hire-purchase is only one of the forms instalment buying may take.

Difficulties of Precise Definition.—In all directions instalment buying shades off into other ways of doing business. No sharp line separates cash, charge, coupon, and instalment sales. Individual arrangements may confuse the definitions further. Thus the charge account may become a line of credit or a revolving credit under which the store sets a limit, of say $30 or $60, up to which a customer may carry his unpaid balance at any time provided that he pays an agreed-upon amount each week or month. This differs very little in substance from an instalment contract to which new purchases are added. In some stores a charge-account customer signs a formal contract like that required of the instalment buyer. Where customers have charge and instalment accounts in a single store, they often pay both in instalments. They may be required to pay a carrying charge for the credit service under any plan. Split payments on regular charge accounts are very common.

The retailers themselves do not always differentiate their credit plans carefully. Whenever they make an effort to differentiate among their plans, individual stores develop endlessly varied patterns. A statistical average of store practice doubtless would show a preponderance in some direction. This would not change the fact, however, that in practice it

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[2] R. Nugent, *Consumer Credit and Economic Stability,* p. 54 n.

is often difficult to segregate a store's instalment sales for purposes of analysis.

Debates Over Definition and Their Significance.—Several writers on consumer credit have labored valiantly to eliminate confusion and uncertainty by establishing precise and universally applicable definitions. Unfortunately their efforts have led chiefly to interminable debates over the meaning to be attached to the term "credit" and the precise location of the boundaries that divide consumer credit from producer credit, instalment credit from open-book or charge-account credit, cash sales from credit sales, and instalment-cash credit from instalment-sale credit.

The present writer has purposely refrained from entering this wordy arena. The definitions here accepted are precise and specific enough to permit effective analysis within the limits set by difficulties encountered in collecting quantitative data. Further refinement, although pleasing in the abstract, can have little significance for the purposes at hand.[3]

One reason for the stress commonly placed upon definitions is the curious fact that some students have chosen the slippery ground of definitions as a field upon which to do battle over the social consequences of instalment buying. Thus when Seligman questions the validity of classifying instalment-sale credit as consumer credit, he is really trying to establish the social utility of instalment buying. Similarly, Haring, when he defines instalment buying as a form of saving rather than of spending, is in effect defending it as a useful economic device. This sort of motive is particularly strong in efforts to make sure that instalment buying as a form of consumer credit is not confused with spendthrift or wasteful spending.

Another important reason for the emphasis placed upon definitions lies in the distinction made by the courts between selling goods on credit and loans of money. Lenders are subject to statutory limitations upon their charges; in most states sellers on credit are not. Economic logicians sometimes find this differentiation fictitious, but it can readily be justified in practical business management.

The Amount of Instalment Buying.—So elementary a matter as stating accurately the amount of buying done on instalments in this country is in practice quite difficult. At least two statistical series pur-

[3] For examples of the debates over definitions and concepts in consumer credit, see W. Mors, *Consumer-Credit Theories,* pp. 1–17; E. R. A. Seligman, *The Economics of Instalment Selling,* Vol. I, pp. 1–13, 139–143, and 196–204; R. Nugent, *Consumer Credit and Economic Stability,* pp. 27 and 41, and "Consumer Credit and the Business Cycle" (in J. H. Cover, ed., *Financing the Consumer*) pp. 1, 2; A. F. Chapin, *Credit and Collection Principles and Practices,* New York, McGraw-Hill Book Co., 1929, pp. 3–5; C. W. Phelps, *Retail Credit Fundamentals,* pp. 4–8; A. Haring, *Instalment Credit Comes of Age,* pp. 7 and 20–21; C. O. Hardy, ed., *Consumer Credit and Its Uses,* pp. 1 and 12; D. McC. Holthausen and others, *The Volume of Consumer Instalment Credit,* 1929–1938, p. 3.

port to show the volume of instalment sales at retail, but they differ significantly. Since efforts to reconcile them have failed, the present writer has chosen for Table 7 the one that stands up better under analysis.[4]

During the twelve years, 1935–1946, inclusive, retail sales on instalments in this country aggregated $47.6 billion. This represented 7.2 per cent of total retail sales during the period ($658.1 billion). It is to be compared with sales on open-book or charge-account credit aggregating $136.5 billion and representing 20.7 per cent of the total.

If the war and postwar years, 1942–1946, inclusive, are taken out of the figures in order to eliminate the effects of wartime restrictions upon the production of durables, sales on instalments during the period covered aggregated $34.1 billion. This represented 11.5 per cent of total retail sales ($296.0 billion) and compares with $66.2 billion of sales (22.3 per cent of the total) on open-book credit. During the years just before the war, that is, instalment sales represented on the average about one ninth of all retail sales and about a third of all sales made on some form of credit.

As would be expected in a recovery period, retail sales of all types increased sharply from 1935 to 1941, except for a brief setback in 1938. Thereafter total retail sales continued to increase (partly as a reflection of price increases), whereas charge-account sales barely held their own and instalment sales fell off sharply. The big wartime expansion was thus in cash sales. As the war came to its close in 1945, open-credit sales had begun to grow again, but instalment sales still lagged. From other sources we know they did not begin to catch up until 1947.

The section of Table 7 headed "Per Cent of Sales" reveals these differential movements even more clearly. Except for 1938, when the instalment business fell much more drastically than other retail trade, instalment sales held between 11 and 13 per cent of the total until 1941. Thereafter they dropped precipitously to 3 per cent in 1944. Open-book credit sales fell slightly, and cash sales increased sharply as percentages of the total.

For years earlier than 1935 the available data are extremely scanty and conjectural. Merriam in 1938 estimated that at their predepression peak in 1929 instalment sales represented 13 per cent of retail sales.[5] This is the same figure as the 1940–1941 peak in Table 7. Seligman estimated that in 1925, out of retail sales totaling $38 billion, sales of

[4] See Appendix A, *Explanatory Notes on Major Statistical Sources,* for a description and analysis of the principal statistical materials available for this study. The present writer is indebted to his colleague, Professor Ralph F. Breyer, for a great deal of labor in analyzing, reconciling, and extending these materials and for the preparation of the appendix.

[5] *Retail Credit Survey: 1937,* p. 12.

TABLE 7

RETAIL SALES BY TYPE OF TRANSACTION, 1935–1946

	Amount of Sales (Billions of dollars)				Per Cent of Sales				Index (1935–1939 = 100)			
	Cash	Open Credit	Instal-ment	Total	Cash	Open Credit	Instal-ment	Total	Cash	Open Credit	Instal-ment	Total
1935	22.3	6.9	3.6	32.8	68	21	11	100	86.1	80.0	83.7	84.5
1936	25.6	8.3	4.5	38.4	67	21	12	100	98.8	96.3	104.7	98.9
1937	27.9	9.3	4.9	42.1	66	22	12	100	107.7	107.9	114.0	108.4
1938	26.5	8.7	3.6	38.8	68	23	9	100	102.3	100.9	83.7	99.9
1939	27.2	9.9	4.9	42.0	65	23	12	100	105.0	114.8	114.0	108.2
1940	29.9	10.7	5.8	46.4	64	23	13	100	115.4	124.1	134.9	119.6
1941	36.3	12.4	6.8	55.5	65	22	13	100	140.2	144.2	158.1	143.0
1942	42.5	12.3	2.8	57.6	74	21	5	100	164.1	142.7	65.1	148.5
1943	48.9	12.4	2.4	63.7	77	19	4	100	188.8	144.2	55.8	164.2
1944	54.4	12.8	2.3	69.5	78	19	3	100	210.0	148.8	53.5	179.1
1945	60.3	14.0	2.3	76.6	78	19	3	100	232.8	162.8	53.5	197.4
1946	74.2	18.8	3.7	96.7	77	19	4	100	286.4	218.6	86.0	249.2

Source: The amounts for 1935–1938, to the nearest one tenth of a billion dollars, are from *Retail Credit Survey: 1939*, United States Department of Commerce, Domestic Commerce Series No. 112, 1941, Table 1, p. 9. The amounts and per-cent-of-total figures for 1939–1946 are from *Retail Credit Survey: 1946*. Some slight adjustments in the use of the Census data were made by the Federal Reserve Board, but the figures of the Board and the Department of Commerce are in general comparable. The index numbers and the per cent of total for 1935–1938, were computed by the author.

consumer goods on instalments totaled $4.5 billion or 11.8 per cent. Filippetti, in a study made for Seligman, gives some figures for 1919 from which it can be concluded that 33 per cent of the new cars, 45 per cent of the used cars, and 37 per cent of all cars were sold on instalments in that year.[6] An occasional student, working with practically no data, has tried to find out what happened to the quantity of consumer credit prior to 1900, but the conclusions are vague and difficult to interpret.

Instalment Buying Through Cash Loans.—One very important omission from even the recent figures must be emphasized. This is the purchase of goods with cash borrowed from lenders of various types and repaid in instalments. Although purchases of this sort appear in the retailers' records as cash transactions, they are more properly to be considered instalment purchases differing from other instalment purchases only in the source of the funds and the specific contractual arrangements. Since cash lenders are putting increasingly heavy competitive pressure behind the development of this kind of business, its quantitative importance needs to be taken into account.

Most cash lenders do not systematically assemble data on the purposes for which their customers borrow. Even when they do compile tables they simply accept each customer's statement, and this is far from reliable. Since the borrower spends his available funds for a variety of things, he can arbitrarily select, as the purpose of the loan, the transaction that looks best in his application.

Neifeld, in Table 8, consolidates data of this sort for 1,724,248 borrowers from small-loan companies, credit unions, and a large national bank in the early 1930's. The furniture and automobile classifications are clearly indirect instalment buying. They account for between 13.2 and 20.4 per cent of the loans made by the various types of agency. Some undetermined percentage of the loans for clothing, fuel, and rent, and those for refinancing and consolidating existing obligations, also represent instalment buying in substance if not in outward form.

Corroboratory evidence is given by Young for small-loan chains in 1934–1937. The Household Finance Corporation identified 25.7 per cent of its loans in these years, 1934–1937, as having been made to finance purchases of automobiles, furniture, clothing, and fuel, without allowing for the consolidation and refinancing of debt incurred for such purposes elsewhere. The Beneficial Industrial Loan Corporation in the same years made 14.8 per cent of its loans to finance purchases of automobiles and furniture alone, and the American Investment Company of Illinois made 22.4 per cent of its loans to finance purchases of cloth-

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[6] Seligman, *The Economics of Instalment Selling,* Vol. I, pp. 92–119 and Vol. II, pp. 425 and 439.

ing, fuel, and furniture.[7] Even borrowers from the unregulated lenders, sometimes referred to as "loan sharks," apparently use cash loans as a means of instalment buying. Simpson learned from inter-

TABLE 8

CONSUMER INSTALMENT CASH LOANS MADE BY FOUR GROUPS OF LENDERS, CLASSIFIED BY REASON FOR BORROWING

Reasons for Borrowing	Agency			
	Two Major Loan Companies[a]	All Pennsylvania Loan Companies[b]	Credit Unions[c]	National City Bank[d]
Total Number of Loans	1,286,370	310,572	4,330	122,976
Per Cent of Total Borrowed for:				
Refinancing and centralizing existing obligations	22.4	18.9	16.9	15
Clothing, fuel, food, rent	17.6	15.1	11.7	7
Automobile	8.1	9.0	13.9[e]	–
Medical, hospital, dental expense	13.1	10.8	19.4	30
Business capital	5.3	5.7	–	11
Taxes	4.8	5.9	2.6	3
Furniture	5.1	4.2	6.5	14
Travel and vacation	4.5	3.0	4.6	–
Repairs	4.0	3.6	5.1	–
Assistance to relatives	3.5	2.5	1.7	3
Mortgage and interest	3.1	2.3	0.8[f]	8
Insurance premiums	2.2	3.9	3.3	3
Moving	1.8	1.4	1.0	–
Education	1.6	1.2	1.2	5
Funeral	0.7	0.7	0.9	1
Miscellaneous	2.2	10.9	6.5[g]	–
Investments	–	0.4	–	–
Livestock	–	0.5	–	–
Interest rates	–	–	3.9	–
Total	100.0	100.0	100.0	100

[a] Compiled from figures published in the 1936 Annual Reports to Stockholders of the Beneficial Industrial Loan Corporation and of the Household Finance Corporation.
[b] Special Report of Licensees operating under the Small Loan Act of Pennsylvania, approved June 17, 1915, as amended June 4, 1919 (Commonwealth of Pennsylvania: Department of Banking).
[c] Compiled from "Credit Unions, a story of Cooperative Credit" (St. Paul, Minnesota, State Department of Education: Social Science Educational Materials Project, Series No. 2), p. 10 and "Cooperative Saving" (March, 1936).
[d] "The Personal Loan Department of the National City Bank of New York," a pamphlet published by the American Bankers Association (New York, 1935), p. 8.
[e] Includes auto supplies, 1.2 per cent.
[f] Real estate purchase.
[g] Includes personal, 1.3 per cent.
Source: M. R. Neifeld, "What Consumer Credit Is," in P. F. Douglass, editor, "Consumer Credit," 196 *The Annals of the American Academy of Political and Social Science*, p. 69 (March, 1938).

[7] R. A. Young and associates, *Personal Finance Companies and Their Credit Practices*, p. 62.

views with 2,223 such borrowers in the Carolinas that 14.3 per cent of them had borrowed to buy clothing, automobiles, tires, and furniture.[8]

Percentage of Durables Bought on Instalments.—From data such as the foregoing it can be estimated that somewhere between 60 and 75 per cent of the dollar volume of retail sales of consumers' durable goods in peacetime involves direct or indirect instalment financing. Nugent, in the middle 1930 s, estimated that 75 per cent of the dollar volume of retail sales of these goods involved instalment financing.[9] Holthausen estimated that in 1941 about 60 per cent of the retail volume in consumer durables involved instalment financing.[10] Since neither author lists his sources or describes his methods, it is impossible to check either figure very closely. The present writer, judging from data to be found in other sections of this study, including the tables in Appendix B, and from his interviews with merchants and others active in credit selling, inclines to the opinion that the truth lies nearer the higher than the lower figure. This opinion assumes that retail sales of durables are interpreted strictly so as to eliminate sales of nondurables by stores that also sell durables, and that full allowance is made for indirect instalment purchasing through cash loans.

Since instalment sales normally involve substantial down payments, the new credit written on such transactions is considerably less than 75 per cent of sales of durables during any given year. Haberler estimates that in 1929 the instalment credit written represented 40 per cent of the aggregate sales of durables. This percentage rose to 44.5 per cent in 1931, fell back to 40.9 per cent in 1932, then climbed again to 57.9 per cent in 1938. For the entire period, he concludes, the instalment credit written represented approximately 45 per cent of the retail value of the durables sold in this country.[11] No effort has been made to extend these estimates into the war years and beyond, but there is no reason to doubt that decreases in the proportion of durables sold on credit and increases in down payments substantially reduced the percentages.

Variations in Instalment Buying by Trades.—As would be expected, the importance of instalment buying varies widely from trade to trade. Practically every commodity or service has been sold some-

[8] W. H. Simpson, in American Association of Personal Finance Companies, *Family Finance and the Small Loan*, p. 12.

[9] Nugent, *Consumer Credit and Economic Stability*, p. 196.

[10] Holthausen, "Monthly Estimates of Short-Term Consumer Credit, 1929–1942," 22 *Survey of Current Business*, No. 11 (November, 1942), p. 11.

[11] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, pp. 2 and 155. Haberler's statements are not clear, but the figures above summarize the present writer's understanding of them.

where and sometime on instalments, but the amounts sold on this plan are trivial for most goods. Table B-1 covers credit-granting stores in all trades for which the *Retail Credit Survey* has reported any appreciable volume of sales on instalments since 1934, except dealers in heating and plumbing equipment.[12] These dealers are omitted because much of their business is done with contractors rather than with consumers.

Subject to the limitations described in Appendix A, these figures support the following conclusions:

1. The largest proportion of sales done on instalments is to be found in furniture and household-appliance stores.
2. In jewelry, automobile, and tire stores, the instalment trade represented a large proportion of the aggregate volume.
3. In all other types of stores covered, instalment sales represented only a small percentage of the total volume. It should be noted, however, that the percentages are computed against sales of the entire store rather than against sales of the specific departments handling durables. This fact is particularly important in interpreting the figures for department stores.
4. The percentages of trade done on instalments increased steadily up to 1941 in all trades except automobiles, household appliances, and fuel. It is impossible to determine from the available records the proportions in which the failure of automobile and household-appliance dealers to show a persistent upward trend reflects a decrease in the proportion of their large-unit durables sold on instalments, an increase in the proportion of small-unit and nondurable merchandise included in their sales, a greater use of cash loans in buying durables, and better sampling by the *Retail Credit Survey*. Similarly, the meaning of the upward trends for other trades is not completely clear, but interviews in the field indicate that statistics such as these tend to understate rather than to exaggerate the growth in the importance of instalment buying.
5. All trades show a reduction in the proportion of instalment sales during the years after 1941, but the decrease is most marked in the trades handling items whose production was most severely curtailed.
6. Even in 1946 the proportion of sales done on instalments continued to fall for automobiles and furniture. Only jewelry and tires made any substantial gains. All other trades held virtually at their 1945 lows.

Table 9 makes a further refinement of the data by estimating the proportion instalment sales represented in each of the years from 1929

[12] All tables with "B" numbers are in Appendix B.

to 1946 of total sales by all kinds of stores in the five trades. The total taken as 100 per cent, in other words, is the combined sales of stores that sold on credit and those that did not. Because the bases differ, and also because of differences in definition, the percentages are not the same as in Table B-1. Automobiles have a much higher percentage of instalment sales in Table 9 than in Table B-1, chiefly because the sales figures are restricted more closely to automobiles and include less of other commodities and services sold by automobile dealers. The other conclusions drawn from Table B-1 are not changed substantially by these figures.

The figures for automobiles in Table 9 are based on physical units. In contrast, total sales of goods and service by automobile dealers provide the base in the *Retail Credit Survey*. Smith's estimates in Table 10 (similarly based on physical units) give results very close to Holthausen's. It is also worth noting that the annual reports of the National Retail Furniture Association on operating experiences of furni-

TABLE 9

INSTALMENT SALES AS A PERCENTAGE OF TOTAL SALES OF EACH OF FIVE TYPES OF RETAIL ESTABLISHMENTS, 1929–1946

Year	Dealers in New and Used Automobiles[a]	Department Stores	Furniture Stores	Household-appliance Stores	Jewelry Stores
1929	64	6.0	38.3	49.1	16.6
1930	64	6.3	39.4	49.4	17.3
1931	61	6.3	40.1	50.0	20.1
1932	49	5.8	40.4	49.1	18.1
1933	57	6.5	41.5	49.1	18.7
1934	57	7.8	42.6	50.5	22.6
1935	61	9.7	42.1	52.1	24.3
1936	59	12.0	44.3	56.1	29.2
1937	60	14.1	48.7	58.9	33.6
1938	57	13.6	54.9	57.8	35.8
1939	61	14.5	45.9	44.8	29.6
1940	59	15.3	45.9	44.8	30.2
1941	–	15.3	44.6	42.5	30.8
1942	–	10.2	40.6	32.4	24.1
1943	–	7.3	38.8	21.6	19.5
1944	–	7.3	35.3	18.5	16.2
1945	–	7.3	34.1	17.0	13.0
1946	–	8.8	32.9	17.0	18.2

[a] Passenger cars only.

Source: The figures for the years 1929–1938 are based on Table A-6 of D. McC. Holthausen, *et al*, *The Volume of Consumer Instalment Credit, 1929–38*, National Bureau of Economic Research, 1940, with recomputations, using revised instalment sales estimates, being made by the author in numerous instances. Estimates for subsequent years were computed by the author. See the *Explanatory Notes on Major Statistical Sources*, Appendix A, for explanation of the method. In the case of automobile dealers, the percentage figures apply to units of cars sold. For all other groups they are based on dollar volume of sales.

TABLE 10

ESTIMATED NUMBER AND PER CENT OF ALL AUTOMOBILES (NEW AND USED) BOUGHT ON INSTALMENTS, AND NUMBER AND PER CENT REPOSSESSED, 1928–1941

Year	Estimated Number of Cars Sold (1)	Estimated Per Cent of Cars Financed (2)	Estimated Number of Cars Financed (Col. 1 × Col. 2) (3)	Estimated Per Cent of Financed Cars Repossessed (4)	Estimated Number of Cars Repossessed (Col. 3 × Col. 4) (5)	Cars Repossessed as Per Cent of All Cars Sold (Col. 5 ÷ Col. 1) (6)
1928	6,812,579	59.4	4,046,672	4.1	165,914	2.4
1929	8,870,206	64.0	5,676,932	4.2	238,431	2.7
1930	6,942,979	63.8	4,429,621	5.4	239,200	3.4
1931	5,163,141	61.3	3,165,005	8.5	269,025	5.2
1932	3,134,399	48.6	1,523,318	10.4	158,425	5.1
1933	4,152,794	56.8	2,358,787	5.7	134,451	3.2
1934	4,912,557	56.6	2,780,507	5.3	147,367	3.0
1935	5,894,452	60.8	3,583,827	7.3	261,619	4.4
1936	8,747,090	59.4	5,195,771	5.1	264,984	3.0
1937	9,687,525	59.0	5,715,640	9.4	537,270	5.5
1938	5,536,285	57.0	3,155,682	15.1	476,508	8.6
1939	9,106,363	60.6	5,518,456	7.5	413,884	4.5
1940	11,591,260	61.6	7,140,216	–	–	–
1941	13,045,639	57.8	7,540,379	–	–	–

Source: 1928–1938, T. H. Smith, *The Marketing of Used Automobiles*, p. 34. 1939–1941, estimated number of cars sold and per cent of cars financed from data provided by the National Automobile Dealers Association. 1939, estimated per cent of financed cars repossessed from *Automobile Facts and Figures*, Automobile Manufacturers' Association, 1940, p. 35.

ture stores show credit sales (chiefly instalment sales) averaging close to 90 per cent of total sales. Here again the differences seem to be due chiefly to differences in definition. The association obtains its data almost exclusively from retailers whose business is concentrated in large-ticket items.[13]

Relative Importance of Different Trades.—The relative importance of different trades in the instalment business during the years preceding World War II is shown by Tables 11, 12, and B-2. These tables estimate instalment sales by four types of retailer.[14] Table 11 presents the annual totals of sales compiled from the monthly data in Table B-2. Table 12 recomputes the figures in Table 11 as percentages. It has been impossible to reconcile the totals in the first column of Table 11 with the

TABLE 11

AMOUNT OF INSTALMENT SALES BY TYPE OF RETAIL ESTABLISHMENT, 1929–1946

(Millions of dollars)

Year	Total	Automobile Dealers	Furniture and Household-appliance Stores	Department Stores and Mail-order Houses	All Other Retailers
1929	5,702	3,858	1,158	271	415
1930	4,129	2,542	941	258	388
1931	3,015	1,725	703	233	354
1932	1,537	750	388	161	238
1933	1,752	937	422	175	218
1934	2,232	1,218	491	236	287
1935	3,152	1,910	587	309	346
1936	4,276	2,618	775	426	457
1937	4,778	2,808	882	527	561
1938	3,406	1,643	765	467	531
1939	4,468	2,300	903	611	654
1940	5,330	2,932	975	707	716
1941	6,194	3,468	1,109	810	805
1942	2,590	532	817	572	669
1943	2,021	304	693	438	586
1944	2,186	525	677	431	553
1945	2,273	514	722	459	578
1946	3,858	1,268	1,095	732	763

Source: Table B-2.

[13] For additional examples of widely variant estimates of the importance of instalment buying attributable to differences in definition and sampling, see I. D. Anderson and D. J. Duncan, *Retail Furniture Stores, 1937–1941,* pp. 5 and 8; H. W. Cordell, *Instalment Credit in the Retail Furniture Trade,* pp. 15–19, and sources there cited; L. A. Froman, "The Cost of Instalment Buying," 11 *Harvard Business Review* (January, 1933), p. 227; H. Ittleson, *A Current Appraisal of Instalment Buying;* W. Kleeman, *What is a Furniture Store?,* Chicago, National Retail Furniture Association, 1943, p. 24; and E. R. A. Seligman, *op. cit.,* Vol. II, Appendices 3 and 5.

[14] These figures do not include "cash" sales paid for by consumers out of the proceeds of cash instalment loans.

figures for instalment sales in the third column of Table 7. The differences must be taken as evidence that all these estimates contain appreciable elements, if not of error, at least of uncertainty in definition. These figures nevertheless permit the drawing of some important broad conclusions.

The predominance of automobiles in instalment buying becomes apparent at a glance in Tables 11 and 12. Even at their cyclical low

TABLE 12

PERCENTAGE DISTRIBUTION OF INSTALMENT SALES BY TYPE OF RETAIL ESTABLISHMENT, 1929–1946

Year	Total[a]	Automobile Dealers	Furniture and Household-appliance Stores	Department Stores and Mail-order Houses	All Other Retailers
1929	100	67.7	20.3	4.8	7.3
1930	100	61.6	22.8	6.3	9.4
1931	100	57.2	23.3	7.7	11.7
1932	100	48.8	25.2	10.5	15.5
1933	100	53.5	24.1	10.0	12.4
1934	100	54.6	22.0	10.6	12.9
1935	100	60.6	18.6	9.8	11.0
1936	100	61.2	18.1	10.0	10.7
1937	100	58.8	18.5	11.0	11.7
1938	100	48.2	22.5	13.7	15.6
1939	100	51.5	20.2	13.7	14.6
1940	100	55.0	18.3	13.3	13.4
1941	100	56.0	17.9	13.1	13.0
1942	100	20.5	31.5	22.1	25.8
1943	100	15.0	34.3	21.7	29.0
1944	100	24.0	31.0	19.7	25.3
1945	100	22.6	31.8	20.2	25.4
1946	100	32.9	28.4	19.0	19.8

[a] Figures may add incorrectly because of rounding.
Source: Computed from Table 11.

points in 1932 and 1938, passenger automobiles accounted for nearly half of the instalment sales made by the country's retailers. At their peaks in 1929, 1937, and 1941, they accounted for at least three fifths of the total. For the entire prewar period, automobiles averaged approximately 57 per cent of the total for these trades, as measured by dollar volume. This situation doubtless accounts for the tendency in some quarters to think of the instalment business as being primarily an aspect of the automobile industry.

These tables indicate further, however, that this belief needs to be revised. It is true that the instalment trade in automobiles is the one that can best be described as "big business," and is the one upon which

the large finance companies have tended to concentrate. Nevertheless the aggregate sales on instalments of other trades have been substantial and in some years have exceeded those for automobiles. Furthermore, instalment sales of other goods expanded more rapidly than those of automobiles during the period from 1929 to 1941. Finally, the war and postwar years curtailed sales of automobile dealers much more drastically than those of other retailers, and as of 1947 it had not become clear where the postwar trade will find its balance.

Variation in Instalment Buying by Regions.—From year to year the *Retail Credit Survey* breaks down the data given in Table B-1 by geographic regions. These figures suggest that the various parts of the United States vary considerably as regards the extent to which they use the instalment system to acquire durables of all types. They also suggest the existence of some tendency toward a narrowing of the difference in all important instalment trades. There is thus a possibility that at least part of the expansion in the use of instalment buying indicated by Table B-1 is due to the extension of its use into regions where it was formerly relatively little used. Because of weaknesses in the figures described in Appendix A, these conclusions cannot be accepted as definitive. Studies of consumer purchases to be considered shortly do not support them. It therefore seems best to conclude that the evidence is confusing and to hold the question unanswered pending further investigation.

Variation by Size of Store.—Similarly, the available data are too uncertain to support any firm conclusion as to whether the proportion of total sales made on instalments varies significantly with the size of the store.[15] Tables compiled from successive issues of the *Retail Credit Survey* indicate the following: (a) The larger jewelry, household-appliance, and furniture stores have tended to do an appreciably larger portion of their trade on instalments than the smaller ones, but the larger automobile dealers and department stores have tended to do an appreciably smaller proportion of their trade on instalments than do the smaller ones. (b) The war years apparently narrowed the spread between stores of different sizes. (c) The spread was narrowed chiefly by a more than proportional reduction in instalment sales by stores that ordinarily make a relatively heavy use of this method of doing business.[16]

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[15] As we shall see in Chapter 18, W. L. Mitchell, *Standard Ratios for Retailing,* New York, Dun and Bradstreet, 1940, finds reasons to believe that stores which offer credit services are larger on the average than similar stores which sell for cash only.

[16] Because of their weaknesses, the tables compiled by the author from data in the *Retail Credit Survey* on variations in instalment selling by region and by size of store have been omitted. Anyone interested may obtain copies from the Retail Credit Institute of America.

Outstandings Under Instalment Purchase Debts.—The very large volume of buying on instalments described in preceding sections has entailed building up and maintaining a very substantial structure of consumer debt. Tables B-3 and B-4 are the best available measures of changes in the size of that structure, month by month, since January, 1929, but the changes they show must be interpreted carefully. They are the composite effect of various factors that do not always move simultaneously in the same direction. Particularly important among these factors are the prices paid, the number of physical units bought, and the terms collected.

For earlier periods no trustworthy statistics are available. Although Nugent makes what he calls rough generalizations concerning what happened from 1800 on, his conclusions are vague and so conjectural as to inspire little confidence. For present purposes their utility lies in their indication that outstandings in the late 1920's reached a new high never before achieved, and in the fact that they provided a starting point from which Holthausen and the Federal Reserve Board could build the more reliable series summarized in Tables B-3 and B-4.[17]

In October, 1929, instalment-sale outstandings were nearly $2.6 billion. Thereafter outstandings dropped steadily to a depression low of $892 million in March, 1933, rose to nearly $2.9 billion in September, 1937, fell back again to $2.2 billion in October, 1938, and again climbed to a new peak of more than $4.1 billion in August, 1941. Under the influence of wartime restrictions on the output of durables, these outstandings dropped sharply after late 1941 to a new low for the entire period of $689 million. This was reached in April, 1944. Thereafter the volume of outstandings fluctuated within narrow limits until late in 1945 when a slow recovery set in under the impetus of reconversion. By July, 1947, this slow movement had carried the total above $2 billion.

In Table B-4 Holthausen has computed the changes in instalment-sale debt from 1929 to 1942 as index numbers, taking the average of 1935–1939 as his base and eliminating seasonal variations. From a high of 111.7 in October, 1929, the index drops to a low 41.5 in April, 1933, recovers to 126.3 in September, 1937, drops sharply to 99.1 in October, 1938, recovers to a new high of 179.6 in August, 1941, and then turns downward. A number of technical obstacles have prevented extension of this index to the present, and it has not seemed worth while to do the formidable work of computing a new one. There is no doubt, however, that the figures, if extended, would fall to the neigh-

[17] R. Nugent, *Consumer Credit and Economic Stability*, pp. 61–64, 66–70, 85–90, 113–117, and 118–126.

borhood of 30 in 1944 and climb to the neighborhood of 90 by mid-1947.

The figures cited do not tell the full story of instalment buying. As we have seen, probably 20 per cent and possibly 25 per cent of the instalment-cash debt granted prior to the war represented debt which was incurred to finance or refinance the purchase of durable consumer goods. This means that anywhere from $100 million in low years to $600 million in high years must be added to the figures.

Proportion of Instalment Debt to Consumer Debt.—Outstandings under instalment-sale debt were by far the largest item in consumer debt before the war, but represented a much larger percentage of the total in good than in bad times. The aggregate consumer debt of all types fell from $7.6 billion in December, 1929, to less than $3.7 billion in April, 1933, rose to $7.1 billion in January, 1938, fell to $6.7 billion in August, 1938, then climbed to the all-time peak of nearly $10.2 billion in September, 1941. Despite the sharp drop in instalment sales, the total debt fell below $5 billion in only one month during the war (February, 1944). Since then it has risen sharply despite the lag in instalment debt, and had moved onto new high ground above $12 billion by October, 1947.

Throughout the peacetime period covered, instalment-sale debt represented a fraction of the total, ranging from around 25 per cent in low years to around 40 per cent in peak periods. It was cut much more drastically than other forms of credit during the war, and its recovery lagged because of difficulties impeding the resumption of the production of durables for civilians. The result is that during this period instalment-sale credit accounted for 15 per cent or less of the total. This percentage has risen as the output of durables has expanded, but it remained below 20 per cent in 1947.

Further consideration of the figures in Table B-3 leads to the following conclusions concerning the effects of the war on outstandings in consumer credit:

1. Approximately 85 per cent of the sharp reduction after September, 1941, came out of instalment credit.
2. Approximately three fourths of the reduction in instalment credit came from instalment-sale credit.
3. There is reason to believe that much of the reduction in instalment-cash credit represented loans for the purchase of consumer goods.
4. By the end of 1945, consumer credit other than instalment had recovered to its immediate prewar high (although it was still appreciably below its 1929 high). Early in 1946 it reached new all-time highs and it continued to expand in 1947.

5. Outstandings of instalment credit (cash and sales combined) did not move to new highs until 1947, although instalment-cash credit taken alone had reached a new all-time high in 1946.
6. Not until late 1946 did sale credit climb back even to the levels it reached in the depression low of 1933. In mid-1947 it stood at levels only half as high as the ones it reached in 1941.
7. War restrictions on consumer credit may thus fairly be said to have operated almost exclusively against instalment purchases of goods. In all probability this means that the reduction in instalment-sale credit was attributable more to the curtailment of output than to formal controls on credit itself.[18]

Variation in Outstandings by Trade.—Distribution of outstandings under instalment-sale contracts by type of goods, as in Table B-5, again shows the great importance of automobiles in this business. Before wartime restrictions upon output almost eliminated new cars from the market, outstandings under automobile paper constituted by far the largest single item in the instalment sales structure. During approximately half the time between 1929 and 1943, automobile outstandings actually exceeded outstandings for all other trades combined.

A somewhat more detailed analysis for a single year (1940) is made by Table 13. The total here shown is nearly $600 million higher than that given in Table B-5. There are no data upon which to base a reconciliation, but the conclusions of Table 13 concerning the distribution of this total by types of commodity are, nevertheless, of some interest. Automobiles provided 45.4 per cent; household appliances, 18.3 per cent; furniture and pianos, 13.6 per cent; and all other types of goods combined, 22.7 per cent.

The proportion of outstandings provided by automobiles throughout the period covered by Table B-5 was appreciably smaller than the proportion automobiles represented of total purchases by consumers on instalments. This difference apparently was due to the prevalence of somewhat shorter terms on the average for automobiles than for the other goods commonly bought on instalments. It follows that in the analysis of problems where the volume of outstandings is the most important factor, as is true of some aspects of monetary theory and the analysis of business cycles, automobiles have a somewhat smaller and other goods a somewhat larger importance than would be suggested by data on sales alone. On the other hand, the comparatively violent fluctuations in automobile outstandings make them exceptionally conspicuous in business cycle studies. Table B-6, in which outstandings for

[18] The controls imposed upon instalment buying during the war are discussed in Chapter 8 below.

TABLE 13

DISTRIBUTION OF INSTALMENT RECEIVABLES ARISING OUT OF RETAIL SALE OF GOODS BY TYPES OF COMMODITY, END OF 1940

Type of Commodity	Instalment Credit Outstanding	
	Amount (Millions of dollars)	Per Cent of Total
Automobiles, tractors, trailers	1,830	45.4
Household appliances	740	18.3
Furniture, pianos	550	13.6
Home alterations, painting, roofing, insulating	190	4.7
Plumbing, heating, air conditioning	170	4.2
Clothing, furs	160	4.0
Jewelry, watches	70	1.7
Tires, batteries, and other automobile accessories	55	1.4
Books	40	1.0
Miscellaneous[a]	231	5.7
Total	4,036	100.0

[a] Includes farm implements, boats, motorcycles, bicycles, sporting goods, luggage, tombstones, and services.

Source: R. Nugent, as quoted in A. Haring, *Instalment Credit Comes of Age*, p. 45.

the categories covered in Table B-5 for the period 1929–1942 are recomputed as index numbers, shows clearly how much more violent the swings of automobile paper are than those of other trades. It must be remembered, however, that cash sales of automobiles also fluctuate violently.

The importance of automobiles in the instalment picture should not be exaggerated. As a group, other types of paper have come close to equaling automobile paper in the booms and have far exceeded it in the depressions. The amount of financing to be done over the years in these other goods is thus fully comparable with that required for automobiles, and its significance for credit theory presumably is just as great, even though much of the business is done through a multitude of small and obscure agencies rather than a few large and conspicuous ones. The fact that more financing is required per dollar of sales of these other goods is important. Furthermore, one would suppose that, for cycle theory, if automobile outstandings are important because they fluctuate violently, outstandings for other goods are important because they fluctuate less violently.

Variations in Rate of Growth.—Although outstandings of all trades tended upward throughout the period prior to 1941, as shown in Table

B-5, the rise was particularly marked for department stores and mail-order houses and for the "all other" group. It was during this period that the two biggest mail-order houses extended their offerings of instalment credit from a few items to their entire stock of goods, both in their catalogues and in their stores. Department stores expanded their sales of durables, especially appliances, and extended the instalment plan to so-called "soft goods." The increase of outstandings among the "all others" probably was caused in considerable part by the extension of instalment buying to new types of merchandise.

The war affected different types of goods quite unequally. Automobiles and household appliances were hit particularly hard because production was stopped. During 1944, 1945, and the first part of 1946, outstandings of automobile paper stood at levels lower than those of furniture paper and only a little higher than those of department stores and mail-order houses. Not until late in 1946 did automobile paper begin to recover its position. Outstandings for household appliances dropped to a negligible amount and held there into 1947. The other categories of goods, although they suffered severe absolute decreases, were relatively well off.

Instalment Outstandings and Consumers' Holdings of Durables.— The debt structure underlying instalment buying is, then, one in which the total outstandings have not fallen much below $1 billion in the last seventeen years (after allowance for the cash instalment loans used to finance purchases of goods) even in the midst of a great war. At its peak it has risen to around $4.5 billion. Such sums are large, but their significance for the economy can be made clear only by comparison.

We have already seen that this country's stock of consumer durable and semidurable goods other than real estate represents approximately one tenth of its total wealth. In the light of this fact, the size of the instalment debt incurred in buying goods is surprisingly small. The total gross indebtedness of the country is estimated by the Department of Commerce to have fallen from $214 billion at the end of 1929 to $188 billion at the end of 1933, and then to have climbed to $453 billion at the end of 1945. Included in the total are all forms of public and private debt.[19]

In August, 1941, instalment-sale debt outstanding, as we have seen, stood at its all-time high of about $4.5 billion. This was less than 1.9 per cent of the total gross debt at the end of 1941 ($242 billion). Under the stress of war the Federal debt has climbed to totals that would have seemed fantastic a few years ago. Simultaneously, instalment-sale debt has fallen sharply, so that it now represents only a frac-

[19] 26 *Survey of Current Business,* No. 26 (September, 1946), pp. 13, 14.

tion of 1 per cent of the total. When compared with net public and private debt, which totaled $202 billion at the end of 1941, instalment-sale debt at its peak amounted to only 2.2 per cent of the total, and in 1946 it was a considerably smaller percentage.

The accumulation and maintenance of the segment of this country's wealth consumers hold in the form of durables and semidurables has thus been achieved with a less-than-average assumption of debt. These figures do not support allegations that sellers are reckless in granting and buyers reckless in assuming instalment-sale debts. The matter must be explored more systematically, of course,[20] but these data are significant so far as they go. Whether because of their own caution or because of controls imposed upon them by sellers, consumers have held the obligations they assume against this part of their property to comparatively small proportions.

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[20] See especially Chapters 21 and 25 below.

CHAPTER 3

FLUCTUATIONS IN INSTALMENT BUYING

Fluctuations in Instalment Sales by Trades.—A highly important characteristic of instalment buying revealed by statistics such as those in Chapter 2 is wide and continuous fluctuation. Sales, outstandings, terms, the number and kinds of buyers, and the varieties of goods sold on instalments, all vary substantially from time to time. Chapter 24 will show that the nature of the demand for durables is more significant than the fact of credit itself in these fluctuations. For purposes of the present descriptive chapter, it is enough to note that some of the most important problems and some of the most vigorous debates raised by instalment buying arise out of these fluctuations.[1]

Table 7 shows clearly that year-to-year fluctuations in the country's instalment sales have been greater than those of retail sales in general, total retail sales for cash, or retail sales on other forms of credit. This conclusion holds not only for the war period, when the government curtailed durables more drastically than other goods, but also for the cyclical movements between 1935 and 1941.

Unfortunately, the conclusion is ambiguous and confusing because it does not make clear how much of the difference in amplitude of fluctuation is due to differences in type of transaction, and how much to differences in the characteristics of the goods sold under each plan. It has repeatedly been shown that wide fluctuations in sales of goods on instalments are important elements in the general business cycle. From this admitted fact, hasty students have tended to conclude that instalment credit itself is an important causative factor in the cyclical instability of business. It is self-evident, however, that if cash and charge sales of particular commodities fluctuate as violently as instalment sales of the same commodities, the explanation of the fluctuations must be sought elsewhere than in the type of transaction—notably in the nature of the goods or of the consumer's demand for them.

Table B-1 shows no substantial cyclical variation for the trades cov-

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[1] The present chapter concerns itself primarily with describing fluctuations in instalment buying. Chapter 24 will analyze the part played by instalment buying in causing or intensifying economic fluctuations.

ered as regards the percentages of sales made on instalments.[2] This is another way of saying that purchases on other bases are as variable as purchases on instalments. It should be remembered that virtually all data of this kind are inadequate for present purposes, since they are assembled for "trades," i.e., for stores classified according to principal lines of goods carried, rather than for types of commodity. They nevertheless throw some light on the problem and must serve in the absence of comprehensive figures by commodities.

Cyclical Fluctuations by Kind of Goods Sold.—The most detailed comparison of cyclical fluctuations in purchases of different kinds of commodities the present author has found is that by Shaw for the years 1929–1941, inclusive, summarized as index numbers in Table B-7. If the peak years 1929, 1937, and 1941 are compared with the trough years 1933 and 1938, transportation and household operation (the two groups that include most of the goods generally bought on instalments) will be found to have fluctuated somewhat more violently than the other groups listed.[3] This fact is the more significant in that Shaw's classifications are so broad that they inevitably tend to cancel out important differences among individual types of goods and services.

In a further refinement of his analysis Shaw compares expenditures for heavy durables (defined to include furniture, floor coverings, refrigerators, washing and sewing machines, cooking and portable heating equipment, and new cars) with those for other groups. He finds that heavy durables fluctuate much more violently than other groups. Thus from 1929 to 1933, expenditures for heavy durables declined 66 per cent, whereas all other commodities declined 42 per cent and services 35 per cent. In 1938 heavy durables declined 27 per cent, as compared with 4, and less than 1 per cent for all other commodities and services, respectively.[4] Correspondingly, extreme variability is to be observed on the upward movements of expenditures for durables from 1933 to 1937 and from 1938 to 1941.

The analysis of consumption expenditures by type of commodity thus confirms the impressions suggested in the consideration of sales by trades. Expenditures for commodities widely bought on instalments fluctuate more violently than those for noninstalment goods. These data do not support a conclusion that instalment purchases of instalment-type goods fluctuate any more violently than cash or charge purchases of

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[2] See also chart in D. McC. Holthausen and others, *The Volume of Consumer Instalment Credit: 1929–1938*, p. 17.

[3] Table B-8 gives the absolute figures for the years compared and the 1929–1941 average. Figures for 1942 and 1943 in the original have been omitted here because of abnormalities in expenditure patterns caused by the war.

[4] W. H. Shaw, "Consumption Expenditures, 1929–1943," 24 *Survey of Current Business*, No. 6 (June, 1944), p. 8.

instalment-type goods. Therefore a judgment as to whether, and in what degree, instalment buying is responsible for these violent fluctuations must be suspended for the moment. The problem will be considered further in Chapter 24.

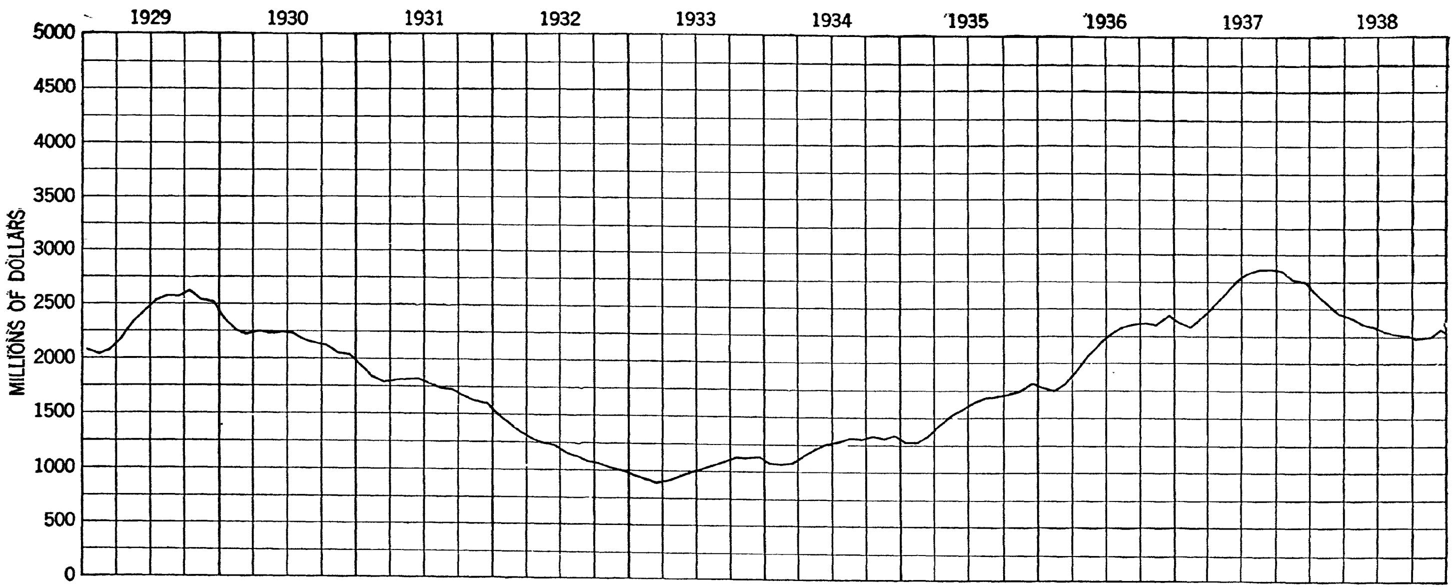
Seasonal Movements in Instalment Buying.—Seasonal fluctuations in instalment buying have received very little attention. Although some students have expressed the opinion that instalment buying helps to iron out seasonality in the purchase of durable goods by consumers, they have compiled no evidence of any kind to support their case. The most elaborate study thus far made of seasonality in instalment buying shows the presence of pronounced seasonal patterns in credit granted, less pronounced ones in outstandings, and virtually none in repayments.[5] The study covers dealers in new and used automobiles, department stores, furniture stores, household-appliances stores, and jewelry stores.

Each trade shows for this prewar period a seasonal pattern of its own for the items that fluctuate. For example, automobiles exhibit a summer peak for credit granted and hold to comparatively low levels during the rest of the year. Department stores have a Christmas peak and secondary highs in the spring and fall, as do furniture stores. Household appliances touch their high point in the spring (probably because of presummer purchases of refrigerators) and a secondary high at Christmas. Jewelry enjoys a fairly stable volume throughout the year except for a very high and very sharp peak in December. The five types, in the aggregate, pass a pronounced high for credit granted in the spring and secondary ones in the fall and just before Christmas. The low comes in mid-winter.

Outstandings for the five types combined exhibit a less pronounced seasonal pattern. For automobiles and household appliances they follow a curve considerably smoother than that for credit granted. In contrast, outstandings of jewelry stores touch a sharp peak in December, then decrease steadily to a low in November just before the next Christmas season starts. Department and furniture stores come in between, with an appreciable seasonal variation, but one less pronounced than that for credit granted.

The differences between credit granted and outstandings as regards seasonal pattern are due primarily to the extreme regularity of repayments. Since repayments reflect sales extending back over several months, and in peacetime average from twelve to eighteen months, they respond slowly to changes in sales from one month to the next. Holt-

[5] D. McC. Holthausen and others, *The Volume of Consumer Instalment Credit, 1929–1938, passim.* See especially the charts on pages 20 and 21. It is too early to tell whether all of these prewar seasonals have carried over into postwar years without significant change, although, as we shall see shortly, some have done so.



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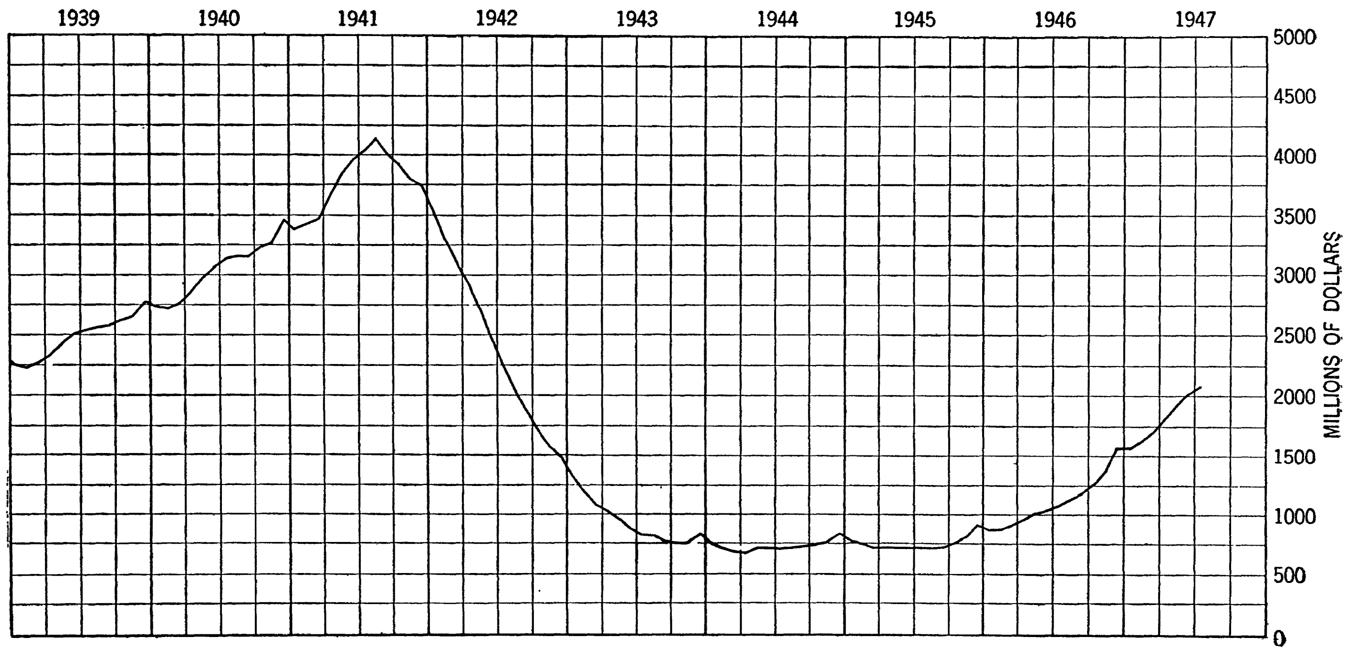
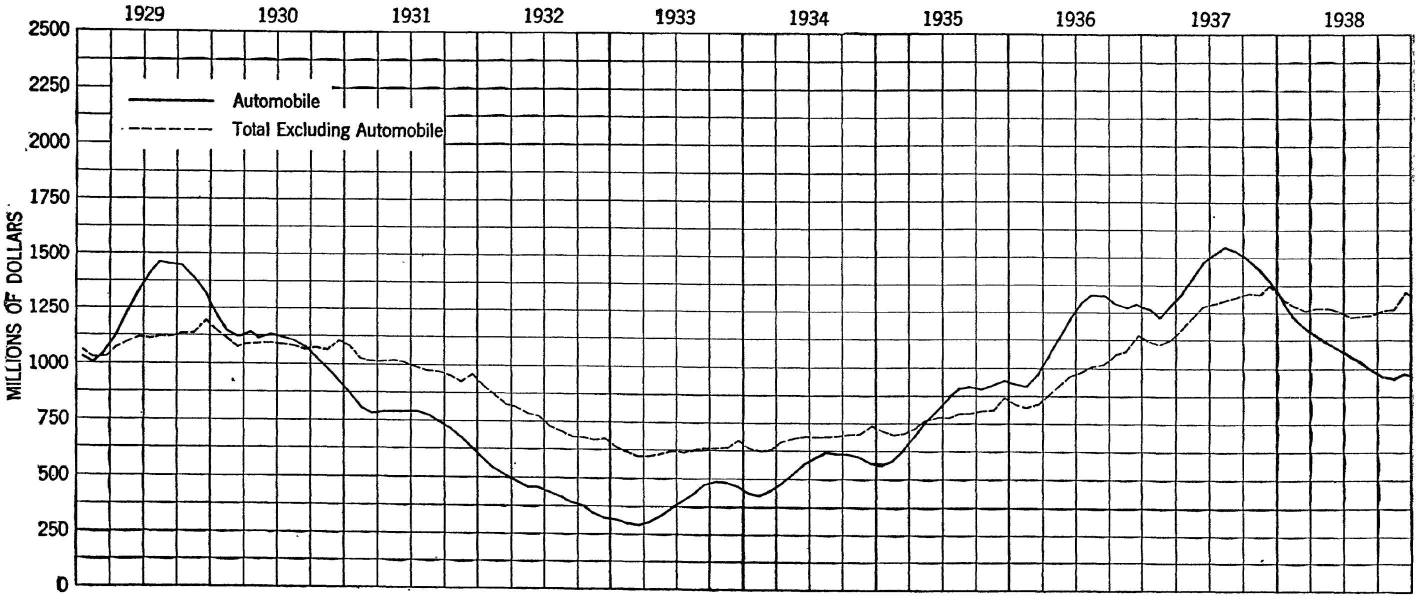


Chart 1. Total Consumer Instalment-Sale Credit Outstanding
Source: Table B-5 (pages 494-498)



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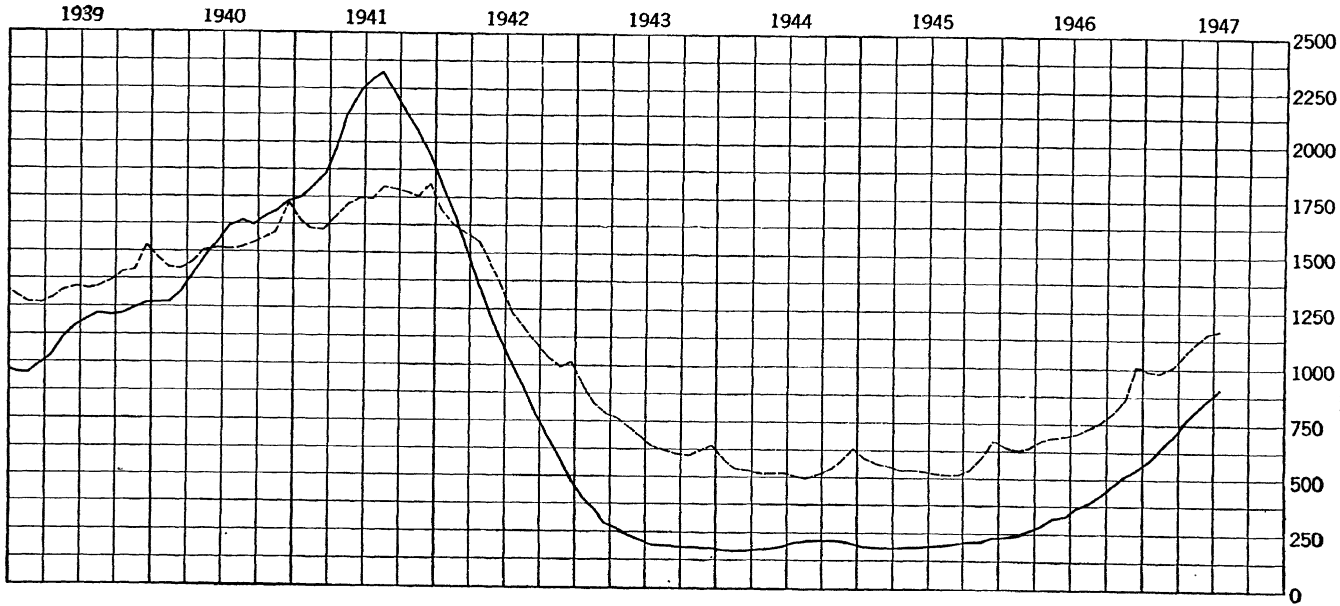
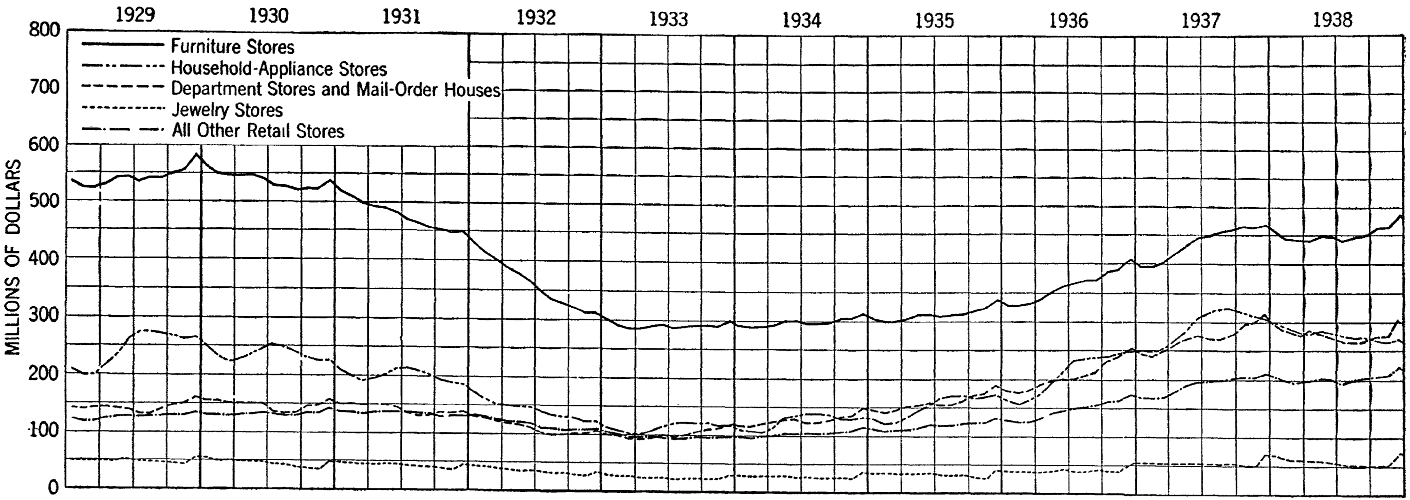


Chart 2. Consumer Instalment-Sale Credit Outstanding, by Sources
Source: Table B-5 (pages 494-498)



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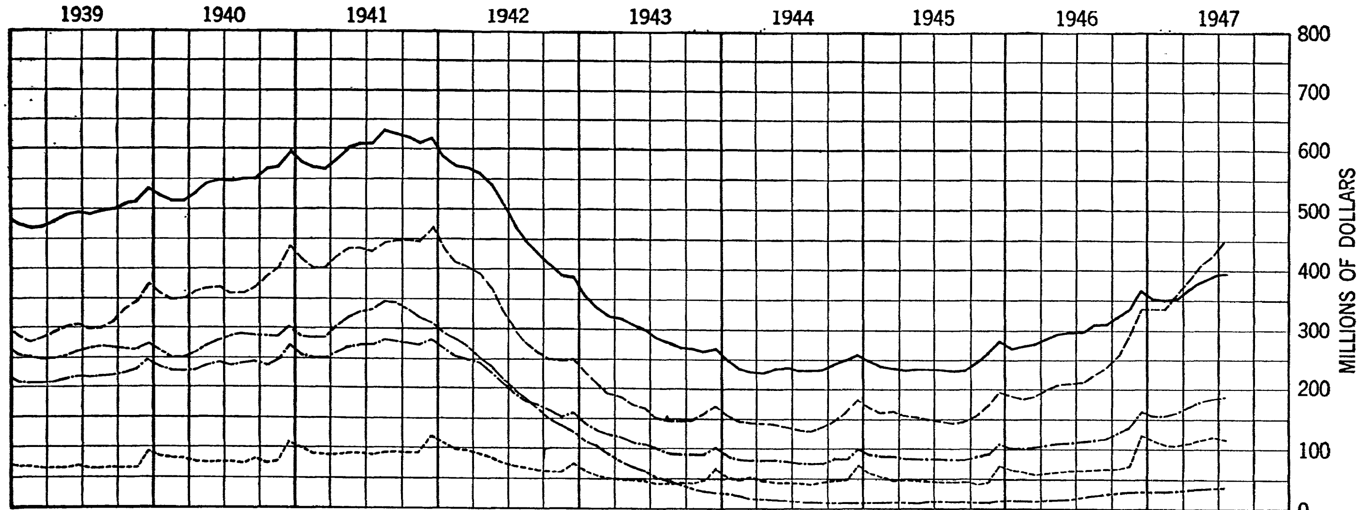

Chart 3. Consumer Instalment-Sale Credit Outstanding (exclusive of Automobiles), by Sources
Source: Table B-5 (pages 494-498)

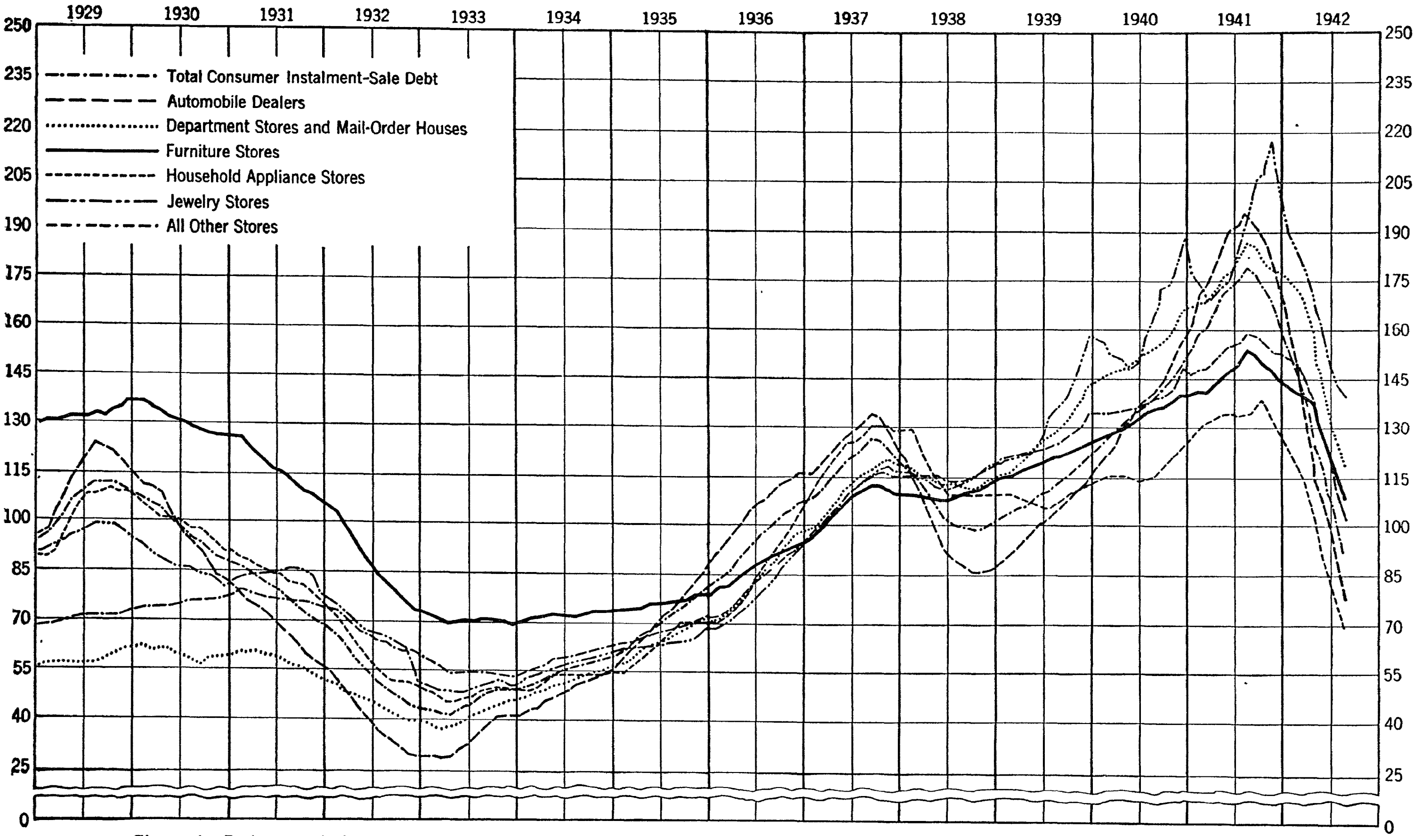

Chart 4. Indexes of Consumer Instalment-Sale Debt Outstanding (Adjusted for seasonal variations). 1935-1939 = 100

Source: Table B-6 (pages 499-502)

hausen notes the point but does not emphasize it as he should. Here is a very important sense in which instalment buying tends to smooth out seasonal instability. Merchants appreciate the service even if scholars do not. For them one of the principal attractions of instalment selling lies in the fact that it often produces a fairly regular flow of funds into their tills even when sales fluctuate substantially.

Further Data on Seasonal Variations.—Table B-5 also throws some light on seasonal movements of outstandings in figures that are portrayed graphically by Charts 1 to 3. Chart 1 covers outstandings under all types of consumer instalment sales taken as an aggregate. It shows very slight seasonal movements. A rounded summer peak and a pointed Christmas one are apparent, but nothing very large. Of some interest is the fact that during 1942 these peaks virtually disappeared, as the dominant influence became the drastic liquidation of outstandings under pressure of the war. The Christmas peak reappeared conspicuously when instalment buying reached its low wartime level, and the summer peak is again slightly apparent by 1946.

Chart 2 indicates that the principal responsibility for the summer peak lies with the automobile trade, so that the failure of this peak to reassert itself strongly since 1943 is understandable. Until late 1945 almost no automobiles were available for sale to consumers. Thereafter the recovery of automobile output, and the avidity of long-denied consumer demand, determined sales to the obliteration of traditional seasons.

Chart 3 shows a considerable diversity in the behavior of outstandings among goods other than automobiles. The Christmas peak is particularly noticeable for furniture stores, department stores and mail-order houses, and jewelry stores. The summer bulge is most evident in household appliances prior to the war years, presumably because of the influence of refrigerator sales. Of particular interest is the fact that department stores and mail-order houses conform to the pattern of "all other" stores from 1929 to 1933 and to furniture stores thereafter. This doubtless reflects the progressive development of instalment sales of furniture and major appliances by the big mail-order houses and, to a lesser extent, by the department stores during the 1930's.

Cyclical Fluctuations in Consumer Credit.—Cyclical fluctuations in consumer credit of all types outstanding were very great during the period 1929–1941, inclusive. Tables B-3, B-4, B-5, and B-6, some aspects of which have already been discussed, show how sweeping these movements were. Table B-6, which presents a seasonally adjusted index of changes in instalment-sale credit as a total, and subdivided by type of goods, is particularly informative and has therefore been con-

verted to graphic form in Chart 4. It gives a detailed picture of what happened during the only continuous peacetime period for which detailed estimates are available.

Nugent, it is true, endeavors to trace the fluctuations in consumer credit back to 1800. He concludes that cyclical interruptions of the long-term growth of consumer credit during the period 1800 to the early 1900's were brief and of minor proportion. He offers no support for his conclusions, however, other than more or less informed conjectures, and these are hardly credible when they include believing that consumer credit was not seriously affected by the great depressions of the 1830's, the 1870's, and the 1890's. More credible, but unproved, is his opinion that cyclical movements of consumer credit outstandings corresponded roughly with those of national income as measured by King, Kuznets, and others.[6]

Holthausen's index in Table B-4 for total consumer credit of all types outstanding takes the average of 1935–1939 as 100 and eliminates seasonal fluctuations. Aggregate outstandings of all types reached a high of 113.8 in October, 1929; dropped in forty-three months to 57.6, reached in May, 1933; climbed in fifty-four months to a new high of 116.2, reached in October, 1937; dropped sharply in nine months to 104.2 in July, 1938; and again climbed in thirty-eight months to a prewar high of 161.5 in September, 1941.

The war produced a very sharp countercyclical drop in consumer credit outstandings, Table B-3 shows, during a period when retail sales in general and consumer incomes were rising rapidly. Although all forms of consumer credit (except service credit) were affected, the heaviest reduction and the slowest recovery were in instalment-sale credit. Since all types of consumer credit were subjected to control by the government, it seems likely that the reduction in consumer credit outstandings was due to the countercyclical reduction in the production of goods commonly bought on instalments rather than to governmental regulation of terms.

Fluctuations in Instalment-Sale Credit.—Fluctuations in instalment-sale credit outstanding during the period covered by Table B-3 were considerably more violent than those of other forms of consumer credit. Because it is so large a part of consumer credit, and because its fluctuations are so great, instalment-sale credit plays a very large part in the over-all fluctuations of consumer credit. Of the fall from $7.6 billion in December, 1929, to $3.6 billion in July, 1933, instalment-sale credit accounted for nearly 40 per cent. It accounted for more than 45 per cent of the rise from $3.6 billion in July, 1933, to $7.5 billion in Decem-

[6] R. Nugent, *Consumer Credit and Economic Stability*, pp. 118–121.

ber, 1937; for 56 per cent of the fall from $7.5 billion in December, 1937, to $6.7 billion in August, 1938; and for nearly 50 per cent of the rise from $6.7 billion in August, 1938, to $10.1 billion in September, 1941. Of the war-time countercyclical drop to a low of $4.8 billion in February, 1944, instalment-sale credit was responsible for 62 per cent. In the postwar recovery, up to 1947, it played a disproportionately small part, but there was every indication that this would change as the producers of durables, working their way out of reconversion difficulties, moved toward almost certain new high records of output.

The comparative violence of the swings in instalment-sale credit outstandings stands out sharply in the index in Table B-4. As compared with the 1929 high of 113.8 for all consumer credit, that for instalment-sale credit was 111.7 Instalment-sale credit then dropped to a low of 41.5 in 1933 (as compared with 47.8 for all credit); climbed back to 126.3 in 1937 (as compared with 116.2); dropped to 99.1 in 1938 (as compared with 104.2); and climbed to a prewar high in 1941 of 179.6 (as compared with 161.5).

Wide though they are, these fluctuations in outstandings are less violent than those in instalment sales revealed by Tables 11 and B-2. This is what one would expect. The difference is apparently accounted for by a tendency for collections to slow up in hard times as compared with good ones.

Fluctuations in Terms.—Some evidence that collected terms tend to lengthen in bad times is offered by Table 14. The average duration of instalment indebtedness there shown was somewhat longer in the 1932–1933 and 1937–1938 depressions than in the preceding booms. The extent to which this is caused by successive lengthening and shortening of written terms, and by better and worse collections under relatively stable written terms, remains to be determined. For automobiles the data are limited to written terms in the years prior to 1939, and there are no satisfactory figures to indicate whether the duration of contracts is made even more variable by cyclical changes in the lag between written and collected terms.

Although Table 14 suggests interesting possibilities, it does not give conclusive evidence. It is by no means certain that the formula used to compute duration of indebtedness yields an accurate result. Holthausen's assumption in the footnote that taking annual averages largely eliminates the effects of changes in the rate of sales is at least doubtful. Furthermore, the changes from year to year are not always pronounced or uniform for various kinds of goods, and the cyclical movements are obscured by trends toward longer durations for automobiles and household appliances. Haberler, considering these difficulties, concludes that

TABLE 14

AVERAGE DURATION IN MONTHS OF INSTALMENT INDEBTEDNESS IN FIVE TYPES OF RETAIL ESTABLISHMENTS, 1929–1946

Year	Dealers in New and Used Automobiles[a]	Department Stores	Furniture Stores	Household-appliance Stores	Jewelry Stores
1929	12.5	12.2	19.4	13.0	13.4
1930	12.6	12.6	21.2	14.5	15.0
1931	13.0	12.6	23.2	16.2	16.1
1932	13.1	14.0	25.5	17.0	18.4
1933	13.3	13.9	24.6	15.8	17.2
1934	13.8	12.9	21.6	16.2	13.6
1935	14.3	12.4	19.8	18.9	13.0
1936	16.2	12.1	19.5	21.2	12.7
1937	17.4	12.4	20.4	22.6	13.0
1938	16.8	13.2	20.3	22.4	14.6
1939	13.0[g]	11.0[g]	19.0[g]	16.0[g]	14.0[g]
1940	14.0[f]	11.0[f]	18.0[f]	18.0[f]	13.0[f]
1941	–	10.0[c]	17.0[e]	–	–
1942	–	8.0[c]	13.0[d]	–	–
1943[c]	15.0	8.0	9.0	26.0[b]	8.0
1944[c]	13.0	7.0	9.0	12.0	7.0
1945[c]	9.0	9.0	9.0	9.0	7.0
1946[c]	10.0	8.0	8.0	7.0	6.0

[a] Data on automobiles (passenger cars only) refer to formal length of contract and not to actual duration of indebtedness, except for the years following 1938.
[b] Includes some longer term, preregulation credit, most of which was liquidated by early 1944.
[c] *Retail Credit Survey, 1943–1946.* When the figures in the two tables differ, those in the later *Survey* have been taken.
[d] An unweighted average of the monthly data given in *Retail Credit Survey: 1943*, p. 24.
[e] An unweighted average of the monthly data given in *Retail Credit Survey: 1942*, p. 17.
[f] Computed from collection ratios given in *Retail Credit Survey: 1940.* The household-appliance sample contained only 16 stores.
[g] Computed from collection ratios given in *Retail Credit Survey: 1939.*

Source: For the years 1929–1938 the data are taken from Table A-4 of D. McC. Holthausen, *et al*, *The Volume of Consumer Instalment Credit, 1929–38*, National Bureau of Economic Research, 1940.

"These estimates were computed from yearly collection ratios reported in the *Retail Credit Surveys* of the United States Department of Commerce, the yearly ratio being "the sum of the instalment collections during each month of the year divided by the sum of the instalment amounts outstanding as of the first of each month of the year. . . . The 1937 and 1938 collection ratios, excluding down payments, taken from the 1938 *Retail Credit Survey*, were used as bases. Working backward, and using link relatives calculated from collection ratios of surveys of the years preceding, we estimated collection ratios for 1929 through 1936 in each of these four (see footnote "a" for automobiles) retail classifications. Use of the formula $n = \frac{2}{cr} - 1$ (n = duration of indebtedness in months, cr = collection ratio) then enabled us to compute figures on duration of indebtedness. . . . Figures on duration of indebtedness computed from collection ratios by this formula constitute the best available indicators of the actual time covered by the paying out of instalment accounts in these four retail classifications. However, the use of collection percentages in such computation has its limitations as well. If we assume no change in collection conditions or length of indebtedness, we may conclude that a sharp rise in sales will cause a drop in the collection ratio, while a sharp drop in sales will produce a rise in the collection ratio. This limitation has been largely offset through the use of annual collection ratios." See Holthausen, *op. cit.*, pp. 108–109.

The data for the years 1938–1944 were assembled and computed by the author. See the footnotes.

cyclical changes in credit terms have been neither regular nor pronounced.[7]

Fluctuations in the Use of the Instalment System by Consumers.—Whether cyclical changes in the use of instalment are attributable in any substantial degree to fluctuations in the number of consumers making use of the system is a matter concerning which only a few shreds of information are available. Comparison of Tables 7, 15, and 16 throws some interesting light on the problem. As Table 7 shows, sales on instalments increased from $3.6 billion in 1935 and $4.5 billion in 1936 to $6.8 billion in 1941. This is an increase of 68 per cent in 1941 over the average of the earlier two years.

Tables 15 and 16 show that the proportion of the country's nonfarm consumers having a net change in their instalment-sale debt increased from 27.5 to at least 30 per cent (and probably to 33 per cent or so) in the same years.[8] Since the base against which these percentages are applied expanded during the interval, it seems probable that the absolute number of consumers buying on instalments increased by at least 10 per cent, and possibly by as much as 20 or even 30 per cent.

As a rough guess, not more than a third of the increase in dollar sales on instalments between the two years can be attributed to an increase in the number of purchasers using the system. Responsibility for the rest of the increase must be divided in some unknown proportion among such factors as the rising price level, increases in the number of products bought on instalments, and improvements in the quality of the goods bought. Whether this sort of combination of changes is characteristic of all booms, or only of this particular one with its special wartime influences, there is no way of telling from the available data.

Fluctuations in Outstandings by Commodities.—Within the instalment-sale debt-category, automobile paper provided the widest swings during the period from 1929, as Charts 2 and 3 show. Since it was the largest element in the group prior to the war, its influence upon the stability of the over-all amount was thus doubly great. All types of paper fluctuated very widely, however, so it cannot be argued that in the absence of automobiles the aggregate of outstandings would have held fairly steady throughout the cycle.

In the seasonally adjusted indexes of Table B-6, reproduced graphically in Chart 4, very sharp cyclical fluctuations are apparent at a glance for all types of stores. From the boom of 1929 to the great depths of 1932 and 1933, back to new peaks in 1937, through the short "reces-

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[7] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, p. 95.

[8] Tables 15 and 16 are explained and interpreted more fully in Chapters 5 and 6 below.

TABLE 15

PER CENT OF NONRELIEF FAMILIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT), IN SIX TYPES OF COMMUNITY,[a] BY INCOME LEVEL, 1935–1936

Income Level	Metropolises	Large Cities	Middle-sized Cities	Small Cities	Villages	All Nonfarm Communities	Farms	All Communities
Under $ 500	3.1	20.5	12.9	17.5	11.8	14.3	8.2	11.9
$ 500– 1,000	11.7	30.2	23.6	26.9	22.0	24.3	9.9	19.2
1,000– 1,500	20.2	34.3	32.2	35.8	26.1	30.3	12.3	26.1
1,500– 2,000	22.6	39.5	37.1	37.4	31.0	33.8	13.9	30.2
2,000– 2,500	21.2	39.5	33.7	33.9	30.1	32.3	17.0	30.2
2,500– 3,000	23.5	39.4	30.1	31.6	26.2	31.1	17.9	29.3
3,000– 4,000	22.0	32.0	25.4	21.6	21.6	25.4	13.4	23.8
4,000– 5,000	16.2	25.6	24.9	20.1	23.6	22.3	15.1	21.5
5,000 and over	13.3	14.0	14.1	16.2	17.9	14.7	17.3	15.0
All levels	18.6	33.6	28.3	30.5	24.0	27.5	11.5	23.6

[a] Metropolises, 1,500,000 population and over; large cities, 100,000 to 1,500,000; middle-sized cities, 25,000 to 100,000; small cities, 2,500 to 25,000; villages, less than 2,500.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–1936*, National Bureau of Economic Research, 1940, Table A-23, p. 146.

TABLE 16

PERCENTAGE DISTRIBUTION OF INSTALMENT AND NONINSTALMENT CONSUMER UNITS AMONG AND WITHIN INCOME GROUPS, 1941

Income Group	Distribution of Consumer Units *Among* Income Groups			Distribution of Consumer Units *Within* Income Groups		
	Instalment Units	Noninstalment Units	All Units	Instalment Units	Noninstalment Units	All Units
Under $500	2.2	10.5	8.0	8.2	91.8	100.0
$ 500 and under $ 1,000	9.6	17.9	15.4	18.6	81.4	100.0
1,000 and under 1,500	15.2	14.6	14.8	30.6	69.4	100.0
1,500 and under 2,000	18.4	15.2	16.3	34.0	66.0	100.0
2,000 and under 2,500	18.4	13.6	15.0	36.6	63.4	100.0
2,500 and under 3,000	18.4	9.5	12.1	45.3	54.7	100.0
3,000 and under 5,000	14.0	13.5	13.6	30.7	69.3	100.0
5,000 and under 10,000	2.7	3.7	3.4	23.8	76.2	100.0
10,000 and over	1.1	1.5	1.4	23.5	76.5	100.0
All groups	100.0	100.0	100.0	29.9	70.1	100.0

Source: R. Cox, *Installment Buying by City Consumers in 1941*, p. 3.

sion" of 1938, and on to the prewar height of 1941 just before wartime shortages struck—all the series follow the same general pattern. That pattern is closely correlated with the general business cycle and with fluctuations in other measures of instalment buying, such as the volume of new credits granted and net changes from month to month in credit outstanding.[9]

Here again the figures show that important differences within the general pattern characterize the various trades. Automobile outstandings, for example, fluctuated much more violently, and furniture outstandings considerably less violently, than aggregate outstandings. This difference presumably must be attributed partly to greater fluctuations in the numbers of cars bought than in the physical volume of furniture sales, partly to the characteristically longer terms granted in furniture sales than in automobile sales. The goods other than furniture and automobiles covered in Chart 4 vary a great deal among themselves as regards month-to-month fluctuations. Generally speaking, however, these other goods seem to be less violent in their swings than automobiles.[10]

Diversity of Experience Among Consumers.—How much diversity of experience there is among individual consumers in periods of rise or fall of the aggregate is virtually unknown. Table 17, which covers only one brief period (1935–1936) in one phase of one business cycle, indicates that the differences are large enough to merit more detailed analysis. Through these two years, as Table B-3 shows, outstandings under instalment-sale contracts virtually doubled, rising steadily month after month with only minor setbacks. Under the circumstances one would expect the majority of instalment buyers to have debt increases rather than debt decreases during any consecutive twelve months within these two years.

This turns out to be true, but it is interesting to note that the minority whose debt decreased is very large. Out of the 5,877,000 nonrelief families whose instalment outstandings changed, 1,753,000, or almost 30 per cent, had decreases. It is thus evident that strong forces other than the business cycle were influencing individual consumers in their use of instalment-purchase credit during this period. There are no important differences, it may be noted, in the distribution by income levels of those increasing and those decreasing their instalment-sale obligations.

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9 Haberler, *op. cit.*, pp. 2 and 3.

10 Two more quantities that seem to fluctuate widely over the period of a business cycle should be mentioned here. One is the proportion of instalment sales repossessed by merchants. The other is losses on bad debts. These fluctuations can be discussed more effectively in conjunction with other matters later on.

TABLE 17

PER CENT OF NONRELIEF FAMILIES INCREASING INSTALMENT DEBT, PER CENT DECREASING SUCH DEBT, AND PERCENTAGE DISTRIBUTION OF BOTH GROUPS, BY INCOME LEVEL, 1935–1936

Income Level	Per Cent of Nonrelief Families		Percentage Distribution of Nonrelief Families	
	Increasing Debt	Decreasing Debt	Increasing Debt	Decreasing Debt
Under $ 500	9.2	2.7	5.9	4.0
$ 500– 750	12.4	4.4	8.5	7.1
750– 1,000	14.8	6.5	12.0	12.4
1,000– 1,250	17.5	7.4	13.9	13.8
1,250– 1,500	19.5	8.1	12.7	12.4
1,500– 1,750	20.0	9.0	10.9	11.6
1,750– 2,000	22.5	9.4	10.0	9.8
2,000– 2,500	21.0	9.2	12.0	12.4
2,500– 3,000	19.9	9.4	6.3	7.0
3,000– 4,000	15.6	8.2	4.5	5.5
4,000– 5,000	13.4	8.1	1.3	1.9
5,000 and over	10.4	4.6	2.0	2.1
All levels	16.6	7.0	100.0	100.0
Estimated number of families (in thousands)	–	–	4,124	1,753

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–1936*, National Bureau of Economic Research, 1940, Table A-5, p. 128.

Trends in Instalment Buying.—Very precise conclusions as to long-term trends in instalment buying cannot be derived from the available statistics. There is no strong reason to doubt that credit moved upward in a long-term trend during the nineteenth century, reflecting the development of factors to be described more fully in Chapter 4.

For the period from 1910 to 1929, somewhat better data are available. Here again it seems reasonably certain that consumer credit, as a whole, exhibited an upward trend considerably greater than that of national income. It is virtually certain that the upward trend was particularly pronounced in instalment buying, since the automobile grew to maturity during this period.

What has happened since is not so clear. Statistical records are much better, but the period is one of great economic confusion. Inspection of Charts 1 to 4 will show how difficult it is to discern trends in data covering an extraordinarily severe depression and a monumental war. If 1929 to 1938 is taken as a "normal" period, aggregate outstandings show a very slight and not very certain upward trend. If the period is extended to include 1941, the trend is quite strongly upward. If the period is extended to 1947, the trend becomes uncertain because

of the sharp recovery in 1946–1947. Common sense would suggest that the presence of an upward trend over the entire period was temporarily outweighed by the effects of war. It remains to be seen whether the suggestions of common sense are valid in this instance, and, if they are, how steep the upward slope of the trend is.

Striking differences among types of goods are apparent in these figures, particularly those in Chart 4. Outstandings under instalment-sale credit incurred in the purchase of furniture show little or no upward trend, especially after allowance is made for price increases. This suggests that at least as early as 1929 the furniture business had become fairly mature both as an industry and as a user of the instalment system. Other industries continued to grow substantially after 1929. It remains to be seen whether these differential movements will continue into the years of peace immediately ahead.

Instalment Buying of Soft Goods.—Although it has been used chiefly for consumer durables, the instalment method of payment can readily be extended to all kinds of goods. In fact one of the most conspicuous developments of the 1930's was the spread of the system to other goods. Instalment buying of soft goods has come about in a number of ways. One is when a merchant adds soft goods or items of small unit value as a means of selling additions to instalment accounts. Thus clothing or household accessories are offered by furniture stores. Another common way the instalment plan may expand within a single establishment is to introduce instalment selling in a particular department (usually one handling durable goods of large unit value) and then gradually extend it to the entire store. Department stores and mail-order houses have been particularly conspicuous in this kind of development of the instalment plan, especially during the 1930's.

The stores handle sales of soft goods on instalments in several ways. Simplest and least formal is the plan used by the big mail-order houses and some department stores under which any purchase aggregating, say, $10 or more, may be bought on time. Contracts, payment plans, charges, and procedures are the same as for instalment purchases of big-ticket merchandise. Other stores merely set a credit limit for the customer, permit him to buy any goods he wants within that limit, and require him to pay on instalments. Usually such a plan will apply to everything the store sells, except where special circumstances intervene, as where local laws forbid the sale of liquor on credit or where a particular department is leased and the store prefers not to take the responsibility for credit. Coupons bought from the central credit office in specified unit amounts and paid for in instalments are another form used for instalment sales of soft goods. Stores that have experimented

with this plan find the coupons appearing in all divisions of the store, even the restaurants and soda fountains. Still another device is to issue a letter of credit on which purchases are entered until the amount of the credit has been exhausted. In some communities plans have been worked out whereby merchants sell on credit through the issuance of coupons by an agency serving several stores. Individual stores may put in two or three different plans to take care of different types of goods and different types of customers.

Other Uses of the Instalment Plan.—Plans have been worked out for the sale of services as well as goods on instalments. Usually these involve borrowing from a cash lender. Thus, in some communities, small loan companies take over the accounts of physicians, dentists, or hospitals and receive payments from the patients in instalments. Under state laws requiring automobile drivers to carry liability insurance, finance companies buy insurance for a driver and permit him to pay out in instalments. Repairs to automobiles, railroad and steamship tickets and vacation tours also are sold on instalments.

Saulnier and Jacoby estimate that at the end of 1940 financial institutions held approximately $400 million in paper based upon instalment sales of business goods to business enterprises rather than consumers. Manufacturers held somewhere between $125 and $200 million, and distributors an uncertain additional amount, probably smaller than that of the manufacturers. The total probably fell between $650 and $750 million.[11] Business buyers have used the plan chiefly for equipment, such as fixtures for stores, restaurants, bars, and hotels, equipment for beauty and barber shops, laundries, cleaners, medical or dental offices, construction, road building, farming, transportation, and air-conditioning machinery. Since many of the purchasers are individuals, the plan that has been used so successfully for consumers' goods has worked out very well for these purposes.

[11] R. J. Saulnier and N. H. Jacoby, *Financing Equipment for Commercial and Enterprise*, pp. 43 and 44.

CHAPTER 4

FACTORS CONTRIBUTING TO THE GROWTH OF INSTALMENT BUYING

Many forces and agencies share the credit for building up the present-day structure of instalment buying.[1] Some of these have made durables available to consumers of modest means at prices they can afford. Others have provided facilities and techniques for financing credit sales to individuals. Still others have in effect persuaded sellers and buyers to take advantage of the opportunities opened to them.

Steps in the Development of Instalment Buying.—Although one can rarely fix precise dates, the succession of steps through which instalment buying grew are fairly clear. As we have already seen, factory-made furniture led the way. Shortly after 1800 the first known examples of specialized furniture retailers appeared in New York City. These merchants sold factory-made furniture on instalments, but no records survive to show the extent of their instalment trade, their terms of sale, or the kind of support they received from manufacturers. Some authorities believe that they sold on conservative terms primarily to middle-class consumers. Manufacturers probably played at least an indirect part in financing their business.

Early in the nineteenth century the clock manufacturers of New England also began to sell on instalments. Departing from the system of manufacturing to order, they began to make a stock which they could peddle from house to house. Some of their sales were on harvest terms to farmers, but they also sold on instalments, especially in the villages. Pianos and organs seem to have reached a considerable volume of sales on instalments by 1845. Dealers apparently did most of this trade with the financial backing of manufacturers. By 1850 the Singer Sewing Machine Company, well launched on the program that carried its product into the most remote parts of the world, had begun to sell its ma-

[1] In addition to the sources cited at the beginning of Chapter 1, the following have been drawn upon for facts and opinions concerning the development of instalment buying: R. W. Babson, *The Folly of Instalment Buying;* G. Haberler, *Consumer Instalment Credit and Economic Fluctuations;* M. R. Neifeld, "Consumer Credit—Impact of the War"; 7 *Journal of Marketing,* April, 1943, pp. 342–345; and T. H. Smith, *The Marketing of Used Automobiles.*

chines to consumers through agents on instalments. Its competitors soon followed suit. When factory-made clothing developed after the Civil War, instalment selling soon came in to help consumers take the product. Records of this sort of selling in the clothing trades made their appearance by 1870. Book publishers broke into the field with house-to-house canvassers as early as 1871, and they may have sold on instalments to some extent before the Civil War. In the early 1880's instalment sales of watches and jewelry had become common.

As the population spread westward, instalment buying went with it. The growth of new industrial cities in the Middle West following the Civil War gave furniture dealers a new market among factory workers whose housing had to be built and equipped. Both there and in the East some retailers began to specialize in selling all kinds of household goods on instalments. As industry developed and trade revived in the Reconstruction South, merchants there also began to promote instalment sales, particularly of furniture, among both white and colored workers. Floods of immigrants provided similar opportunities for merchants in the northern cities. By the end of the century the instalment system had spread to all the well-settled parts of the country east of the Mississippi; it was being used for a wide variety of goods; and it had been directed into lines of trade with consumers of relatively low income. Even farther west in the scattered frontier settlements there was some selling of pianos and organs on instalments by merchants operating out of Middle Western centers.

The automobile, destined to become the giant of instalment buying, appeared in the 1890's but did not develop into a universally used consumer good until World War I. Then the tremendous expansion of low-priced cars began. Instalment sales apparently began around 1910. Advertisements offering automobiles on instalments were published in New York City as early as 1914. Thereafter the system grew with phenomenal speed.

The invention of new household machines such as refrigerators, ranges, vacuum cleaners, washing machines, oil burners and mechanical stokers opened still further opportunities for instalment sellers. Simultaneously, watches imported from Switzerland, whose craftsmen had mastered techniques of making very small movements well suited to wrist watches by factory methods, provided the basis upon which the relatively small instalment-jewelry business of the 1890's expanded into the large credit-jewelry business of today. The South African diamond fields also contributed to the growth of credit jewelers. They greatly enlarged the supply of these precious stones and made feasible the custom of giving engagement rings by consumers in very humble circumstances.

The central thread running through these changes is the growth of methods by which a wide variety of durables could be made available in large quantities at relatively low prices. New products were discovered and invented. Factory production reduced the real cost of old products substantially and made large-scale output feasible. Instalment selling was the instrument devised to make it easy and convenient for consumers to purchase the product.

The Expansion of Consumer Incomes.—A second factor often emphasized in explanations of the rise of instalment buying has been the expansion of consumer incomes. Thanks to a long-continued growth in the productivity of labor, workers have achieved a margin of income over animal needs sufficient to permit their accumulating the substantial investment in durables already described. Writers sometimes describe what happened by saying that the increase in income enlarged the production and distribution of durables, or, alternatively, that the increase in production and distribution of durables caused the incomes of consumers to rise.

A sounder way of putting the matter is that the increase in productivity took the form of consumer durables. Blessed with a capacity to produce goods at rates permitting high levels of living, consumers chose to take much of their good fortune in this form. To sellers the situation was one in which they could readily find customers with incomes sufficient to buy the wares they offered, provided that payments were broken into instalments and consumers given immediate possession without waiting to save up the full price. Instalment buying thus became a device facilitating the spending of increased incomes in ways most satisfactory to the recipients.

The Influence of Urbanization.—A third important factor in the growth of instalment buying has been the progressive urbanization of the country. As we have seen, the building of the industrial cities created a large market for furniture and household equipment. Furthermore it carried with it an increasing reliance upon consumer goods purchased from factories, as contrasted with those made at home, and it set up flows of income better suited to the instalment system of buying than is the typical flow of farm incomes. Wages and salaries received at regular intervals permit the assumption of instalment obligations payable at frequent intervals. In the absence of such income flows, consumers could hardly support a workable system of paying for goods as they use them.

Urbanization also helped sellers keep the cost of instalment credit within tolerable limits. Collection from widely scattered customers is relatively costly. Similarly, payment of a long series of small payments

may impose a considerable burden of real effort upon consumers. It is no accident that for many decades much of the instalment trade was done in congested city areas by house-to-house canvassers and collectors who could go from door to door with a minimum of effort and time.

Instalment Buying and the Money Market.—A fourth major factor in the growth of instalment buying was the organization of a financing machine to carry a load of several billion dollars. Informal arrangements early broke down in many trades. As early as the 1870's, manufacturers of some goods, notably pianos, found it necessary to take over the instalment paper of their dealers. This led in due course to the formation of finance subsidiaries that could draw on the general money market in order to handle the instalment paper of retailers. One piano manufacturer organized such a subsidiary as early as 1904.

Out of these organizations, and similar ones set up to finance the open-book sales of retailers and wholesalers, grew the sales finance companies through which instalment sellers, especially those selling automobiles and major appliances, tapped the money markets for huge sums. Manufacturers participated in the formation of the more important companies, which drew upon commercial banks for funds. Subsequently some of the banks began to circumvent the finance companies by direct financing of dealers and even by loans to consumers. With these kinds of support, instalment trading climbed to its successive highs in 1929, 1937, and 1941.

Social Attitudes Toward Consumer Debt.—Various writers cite as a fifth factor in the growth of instalment buying a change in social attitudes toward consumer debt. They argue that, whereas American folkways of the last century condemned going into debt for consumption, present-day attitudes are neutral if not positively favorable. The change they attribute to a growing awareness of the fact that borrowing to buy durables performs different functions and has different effects from those involved in buying goods whose utility disappears before payment is completed. Some of them find in the vigorous campaigns for the sale of Liberty Bonds on instalments during the first world war a strong influence tending to favor the growth of this technique of payment.

Whether consumers' attitudes toward debt have changed, and, if so, why, cannot be determined easily. One tends to underestimate the willingness and ability to borrow of earlier generations and to overestimate the enthusiasm of today's consumers about going into debt. There seems little doubt, however, that the appearance of such durable items as automobiles and large household appliances has changed social attitudes toward going into debt for any purpose other than business or

the purchase of a home. The prestige of owning some of these items, their evident usefulness, and the fact that they often have a substantial resale value, all have helped to differentiate instalment buying from borrowing to live beyond one's means or to spend a deferred income as it accrues.

Equally difficult to determine is the extent to which the growth of instalment buying can be attributed simply to skillful sales promotion. Unfriendly critics maintain that expanding incomes made more money available to satisfy demands based upon changeable and even whimsical desires. At the same time sellers found aggressive tactics facilitated by increases in the percentage of literacy and great improvements in the mechanical facilities and procedures of communication. That aggressive selling followed is self-evident. It has undoubtedly had some effect. There is no clear evidence, however, that it has done much more than speed people up in directions along which they were already traveling.

Relative Importance of These Factors.—Individuals vary greatly in the emphasis they put upon these various factors. Students of money and credit tend to emphasize the significance of newly developed financial agencies. Critics who object to consumer debt on principle, or to efforts by the poor to imitate spending habits of the rich, often stress the decay of such "good old-fashioned virtues" as work and thrift. Optimists who see the last century and a half as a period of continuing progress look upon instalment buying as an ingenious device that has made it possible for the bulk of the population to share in the better life created by the application of "mass production" to consumer durables, and see in it the very thrift their antagonists see lost.

Whether any one of these factors can properly be considered a specific cause of the growth of instalment buying is doubtful. Correspondingly, one may doubt whether instalment buying is itself the specific cause of any one of these factors. They are all closely related parts of a complicated social development in which the American people expanded their capacity to produce, directed much of that expansion into consumer durables, and distributed the product widely among themselves.

In the absence of any one of these factors the final result presumably would have come out differently. Whether each factor was necessary in the sense that without it the whole structure would have collapsed or failed to grow, we may doubt. Someone might have worked out substitutes. Their exact nature, their comparative appeal to consumers, and their probable effects upon the institution can be only matters of conjecture.

The Part Played by Consumers in the Growth of Instalment Buying.—Lack of complete records similarly prevents accurate allocation of responsibility for the growth of instalments among the people and for the agencies responsible. Particularly difficult to determine is the contribution of consumers. Many critics of instalment buying seem to assume that the consumer, in this, as in other aspects of business life, is a sort of inert puppet. He responds to pulls on strings that move him but has no originating impulses of his own. Such critics see instalment buying as something that happened to consumers rather than as something consumers helped to make happen. A few take the extreme position that someone foisted the instalment system upon unwary consumers who did not ask for it and did not really want it.

Even if we grant that sellers have persuaded many consumers, sometimes under high pressure, to come along faster in their instalment buying than they would have done on their own initiative, we must also grant that many consumers have persuaded some sellers to come along faster than they wanted. Customers of a merchant who sells durables but does not offer terms will inevitably ask for them. In boom times such requests may come from relatively few customers and be refused without great difficulty. Not many merchants can refuse them when times turn hard. Giving a little ground on credit then seems a small price to pay for moving a slow item out of stock or closing a badly needed sale. Informal grants of credit tend to expand gradually into conservative advertising of terms or discreet suggestions by sales people that terms are available.

Forces That Move Instalment Buyers.—As to the psychological forces that move them, instalment buyers have been little studied. We shall see in Chapter 21 that social workers have made a bare start toward understanding the inner workings of consumers whose breakdown as functioning members of society takes the form of hopeless entanglement in debt. No one has devoted even that much study to the normal credit buyers who go along year after year without getting into serious difficulties. No one has any very precise information as to what utilities the average consumer seeks when he buys on instalments; what alternatives are open to him; how they look to him; how his situation in these regards has changed over the years; how he estimates the cost and the service of credit; how he achieves a satisfactory balance between the credit service, the goods themselves, and the other services combined in a retail transaction; how he decides the amount he can afford to invest in durables; why and to what extent he finds it easier to pay a higher price while using the goods than to postpone consumption, save up the money, and pay a lower price later on; how he is influenced by aggres-

sive promotion of credit; the nature of social customs concerning debt in his environment; how they affect his attitude toward debt; and the influence of credit costs upon his attitude.

Questions of this sort can be answered only by difficult, elaborate, and costly research. Some may be unanswerable in quantitative terms. Until they are answered in some form or other we can have only guesses (more or less informed) to work with. Our knowledge and understanding of the role of consumers in instalment buying must remain confused and uncertain. We must be extremely careful, however, not to take simple ignorance as evidence that the consumer's influence is unimportant.

The Encouragement of Instalment Buying by Manufacturers.— Manufacturers of durables have stimulated and guided the growth of instalment buying in many ways from its beginnings. Instalment selling apparently was one of the devices they early hit upon to achieve a profitable volume in sales to the rank and file. The effort paid not only directly in larger volume but also indirectly because of substantial economies in production to be obtained from the expansion of their output. This was true particularly when manufacturing shifted from handicraft to factory methods.

Various writers believe that manufacturers who sold through agents on instalments stimulated not only their sales but imitation by others. Thus Nugent attributes the rapid spread of instalment selling in community after community during the nineteenth century to the sewing machine companies and their agents.[2] Local merchants, he says, seeing the success of the plan in selling sewing machines would try it out for other durables.

Book publishers selling through house-to-house agents also stimulated the spread of the instalment system. Competition between books and house furnishings was more direct than one might think from superficial appearances. Miss McGill reports that buyers often bought sets of "Works" on instalments during the second half of the nineteenth century more as furniture or items of interior decoration than as books to be read. Such books filled otherwise unused shelf space and added "tone," the buyers felt, to the decorations. Books repossessed for nonpayment frequently were found to have been unopened.[3]

Manufacturers have also encouraged instalment buying by designing and pricing goods specifically for the instalment trade. A conspicuous example may be found in the jewelry trade. During the last twenty-five years, importers, designers, and manufacturers of watches, rings,

[2] R. Nugent, *Consumer Credit and Economic Stability*, p. 67.
[3] E. McGill, "The Book Trade," in Seligman, *op. cit.*, Vol. II, pp. 383–389.

and other jewelry have cultivated the instalment market assiduously. They have designed and styled goods to meet the tastes of low-income buyers at prices feasible for them when payment is divided into instalments. In so doing they have fundamentally changed the nature of the jewelry business. Where it had been a trade selling very expensive articles to wealthy patrons at infrequent intervals, it now has become one selling more modest items to people of moderate incomes and stressing repeat sales at fairly frequent intervals.

The Financing of Instalment Buying by Manufacturers.—The available records show that manufacturers have had a great influence upon instalment buying through the aid they give their dealers in carrying the financial burden involved. Thus the agents selling books on instalments bought their books from the publishers and assumed responsibility for the buyer's payments, but were financed by the publishers through the credit terms they received.[4] Jewelry manufacturers and importers set up plans of extended datings, serial notes, and other devices intended to permit the dealer to liquidate his obligations to the producers as his own customers liquidated their obligations to him. They often encouraged larger markups than had been traditional. The larger markup was designed to cover all the costs involved in selling jewelry items of comparatively small unit value on credit, and to leave a generous margin of profit.

Far more important than any of these plans has been the encouragement or actual establishment by manufacturers of sales finance companies. These culminated in the companies that financed the automobile. We shall have more to say about these companies as we go along. Here it is enough to say that when opportunities for a major expansion of output appeared during the first world war, it became evident that new and very large financing organizations would be needed. Manufacturers of automobiles and other durables met the need by organizing or encouraging the organization of what became the great sales finance companies. These companies lifted from both the manufacturer and the distributor the financial burden imposed by the maintenance of wholesale and retail stocks of durables (commonly called "floor planning"), as well as the burden imposed by selling to consumers on instalments.

Automobile manufacturers did not originate the finance company, but the companies they owned or gave preference to soon became by far the biggest of their sort. This fact has led some individuals, as we have

[4] McGill, *op. cit.*, pp. 391–393. Miss McGill found that the publishers made virtually no credit investigation but relied largely upon chance or what some sellers would call the law of averages to protect them in selling their products, except where the orders received on their face indicated irresponsibility. Except for the more expensive books, very little effort was made to repossess in the event of nonpayment.

seen, to think that if instalment buying did not originate with the automobile, it at least became important only when automobiles appeared. All other instalment buying is sometimes dismissed as inconsequential. This attitude is encouraged by the fact that instalment selling of cars is more completely dominated by finance companies than instalment sales of other products.

Commercial banks in the past have also participated openly in the financing of instalment sales, chiefly through these companies. Banks unquestionably have played a large part in financing instalment buying throughout its history, but prior to the appearance of the finance companies they apparently financed the business only indirectly through loans to manufacturers, wholesalers, or retailers on their general credit.

Manufacturers' Influence Upon Terms.—The influence of the manufacturers in instalment selling has also been manifest in the terms quoted to consumers. Retailers, and more especially their credit officers, sometimes attack manufacturers for exerting pressure upon their credit policies. The usual protest concerns itself with efforts by manufacturers to encourage, if not to force, the granting by retailers of terms the critics believe to be "unsound." In 1943, members of the National Retail Credit Association meeting at St. Louis, commented bitterly upon national advertising of specific instalment terms by manufacturers. They maintained that retail stores should be left free to adopt such terms as seem appropriate to them in their particular markets.[5]

Manufacturers have also played some part in the controversy, to which we shall come later, over how the carrying charge should be stated. Manufacturers often advertise a low nominal price to which various extras will be added in the actual sale. Commonly they like to have the instalment charge quoted as an extra. Automobiles and the larger household appliances are usually priced this way. Many jewelry manufacturers follow precisely the reverse policy. They prefer to advertise an all-inclusive uniform price covering their whole sales territory. There is no clear indication as to which policy works out best for the manufacturer, but either way he exerts an important influence on the pricing.

The Development of Instalment Retailing.—Seligman and writers who follow his lead list a specific firm, Cowperthwaite and Sons, of New York, and a specific date, 1807, as the formal beginning of instalment retailing. It seems more probable, however, that the system developed gradually and by imperceptible degrees out of other methods of

[5] National Retail Credit Association, *Proceedings, Retail Credit Forum: 1943*, pp. 76–78. See also J. D. Kemper, "Results of the 1939 C.M.D. Installment Selling Study," *Credit Management Year Book: 1940*, p. 45.

selling on credit. Instalment selling provided a logical answer to problems that arose with the production of consumer durables in factories. One can hardly doubt that it sprang up more or less simultaneously in many places. Cowperthwaite and 1807 are convenient landmarks rather than points of origin.

Insofar as one can tell from the available records, retailers of all sorts sold for credit more commonly than for cash during the first half of the nineteenth century. Reliable statistics are not available, but conditions were such as to make a large proportion of buying on credit inevitable. Agriculture dominated the country, so that incomes came in with the harvest. Many sections had little currency. Banking facilities were limited. Surviving reports by credit investigators and salesmen to importers, wholesalers, and producers all stress the fact that merchants needed long credits because they granted long credits.

Despite the growth of factory employment, even city and town people used the system freely. Some factory owners paid wages in the form of orders on local stores, the purchases being charged to the employer. Cash wages sometimes were paid at quarterly or semiannual intervals.

One author goes considerably farther in trying to show how extraordinary R. H. Macy's proposal to sell for cash only must have seemed in the 1840's and 1850's. Retailers rarely sold for cash, he says. Usually they sold on credit, frequently with settlement at annual intervals. A major problem of store managers was how to get notes from customers rather than to sell to them on open-book credit.[6]

We must conclude that stores were used to selling on credit. For many of them, instalment selling probably amounted to little more than extending and formalizing established practices.

House-to-House Peddling on Instalments.—Another way in which established practices in retailing contributed to the development of instalment buying was through house-to-house peddling and canvassing. One of the most effective ways to promote a new product in the days before national advertising was to send agents out with it. These agents sold, delivered, and collected for the goods. They could grow into instalment selling without any great departure from their regular routine.

All kinds of durables have been sold this way from packs, wagons, trucks, or even from the pockets of the merchant. Any isolated group

[6] R. M. Hower, *History of Macy's of New York, 1858–1919,* pp. 95–96. Hower's and other descriptions of retailing suggest a curious misplacing of emphasis by those who feel that credit selling is what must be explained as unusual in retailing. One might better take credit as the normal, at least until very recent times, and the ability of individual merchants or of entire trades to develop cash buying into a regular routine as the exception to be explained.

of people, such as farmers in the days before good roads or the immigrants in eastern cities, offered opportunities for this method of trade. At times it developed into a system under which the salesman attracted customers into a store, helped them select goods, arranged terms, and collected the payments. This method continually appears anew. As recently as the 1930's a solid block on East Broadway in New York was occupied by stores whose business was done almost exclusively with customers brought in this way.[7]

House-to-house peddling of durables developed in many parts of the country. Philadelphia was long a center of this kind of selling of furniture and housewares. In fact some merchants refer to the system under which canvassers bring instalment customers to stores with which they have standing arrangements as "the Philadelphia plan." Several conspicuous Middle Western instalment dealers apparently learned their business first in Philadelphia. Some of today's largest stores in several parts of the country started as peddlers. Thus one of the country's largest combined wholesale and retail distributors of musical instruments, with headquarters in Kansas City, started in 1878 at Leavenworth selling sewing machines, then organs, and, still later, pianos out of wagons all the way to the Rocky Mountains. From the very beginning it sold on instalment terms. Present-day merchants believe that the instalment system was introduced to the Pacific Coast in the 1870's or 1880's by peddlers of clocks, pictures, and other household wares, who eventually expanded into clothing, furniture, and appliances.

Instalment Selling by Mail-Order Retailers.—The large mail-order houses and department stores have become conspicuous in the instalment business only within the last twenty years. Sears, Roebuck and Company apparently started selling on instalments in 1911, beginning with farm implements and going on to consumer items such as sewing machines, phonographs, organs, and pianos. Montgomery Ward and Company started about the same time with the same sorts of goods. Thereafter both companies, year after year, increased the number of items they sold on terms, reduced the minimum unit purchase required for instalment sales, and offered longer terms. By the late 1930's they had developed to the point where any aggregation of goods valued at $10 or more could be bought on instalments either from the catalogue or in any store. Hagios estimates that by 1939 instalment sales represented "well over" 20 per cent of Sears, Roebuck and Company's sales volume.[8] Another writer reports that 30 per cent of the sales in 1940 of the four largest mail-order houses in Chicago (presumably

[7] Nugent, *Consumer Credit and Economic Stability*, p. 68 n.
[8] J. A. Hagios, "Credit Terms as an Element in Merchandising Competition," *Credit Management Year Book: 1940*, pp. 88–91.

Sears, Roebuck and Company, Montgomery Ward and Company, the Spiegel Company, and the Chicago Mail Order House) were on credit, the rest being for cash.[9]

Any one who reads successive issues of the Sears catalogue may find aggressive selling on instalments strangely at variance with earlier pronouncements concerning its undesirability. There is some evidence, however, that Sears has progressively eased its terms from its earliest days. Before 1899 the company required all of its customers to send at least a deposit with all orders. Any balance was payable on C.O.D. terms, the customer having little or no opportunity to examine the goods. In 1899 Sears took a first step by accepting orders without deposit and arranging matters so that the buyer could examine the goods before paying for them. Within four or five years executives of the company began to consider the possibility of going still further by offering their wares on credit. They did not act until 1911, however, and did not go the whole way until 1939. When formal credit plans were introduced, the company reverted to its earlier plan of demanding cash with the order in the absence of formal credit arrangements. Ward apparently moved along with Sears in these developments. Another company, Spiegel's, made the plunge earlier, going the whole way of specializing in credit selling by mail.

Instalment Selling by Department Stores.—Many department stores and so-called "quality" retailers held back on instalment selling until the 1930's. By the end of that decade most of them had accepted instalment selling as necessary. Some had begun to promote it aggressively. The introduction of credit selling in 1939 by R. H. Macy and Company, probably the country's most aggressive advocate of selling for cash only, symbolized the completion of a great shift of policy.

Several forces combined to bring about the change. To some extent it represented merely a culmination of influences that had for many decades led department stores to elaborate their services and amenities.[10] One form taken by the rise in the country's level of living was a demand for a progressively expanding assortment of retail services, including credit. In the depression following 1929, when consumers pressed for credit and stores badly needed more volume, few merchants could hold back. This was true particularly of stores who foresaw that they could make a substantial addition to their trade, especially in durables. Many of them felt that they must look to durables for any expansion and find ways to get into their stores representatives of lower

9 J. M. Baskin, "Granting Credit by Mail," *The Retail Executive,* April 17, 1940, p. 10.

10 Hower, *History of Macy's of New York,* pp. 330–331, 341, 350, 381–382, 402, and 405 describes the series of steps by which this great store changed from a "cheap store" offering "bargains" with few amenities, to one offering the full range of retail services.

income groups than they had formerly appealed to in their promotions.

Of course some of these stores have long sold on instalments. A few found indirect ways of benefiting from the trade without selling explicitly on instalments. For instance, in some cities instalment merchants issued to their customers orders on department stores for goods they themselves did not carry. The customers picked out the items they wanted and paid the instalment dealer in instalments. The instalment dealer received from the customer the department store price plus 10 per cent or so as a carrying charge. He bought the goods from the department store on 30-day terms at a discount of 10 per cent or so. Such arrangements, while not uncommon in some cities, did not in practice represent a large volume of trade. They are of interest as showing how difficult it may be in practice to tell when an enterprise is in the instalment business.

By the middle 1930's nearly all department stores were selling openly on instalments. The National Retail Credit Association found in 1935 that approximately 90 per cent of the country's department stores sold on instalments. Approximately one fifth of the stores sold all types of goods on instalments to some extent. The National Retail Dry Goods Association reported in 1936 that approximately three fourths of the country's department stores sold both soft goods and hard goods on instalments.[11] Most of them held to reasonably conservative policies in promoting credit sales, but many have made it abundantly clear that in the present postwar struggle they intend to battle aggressively for the business they formerly discouraged.

[11] C. W. Phelps, *Controlled Installment Credit*, pp. 4, 5.

CHAPTER 5

WHO BUYS ON INSTALMENTS

Statistics on Instalment Buyers.—Most difficult to isolate and describe among the various elements in the structure of instalment buying is the instalment buyer. Writers often ignore him altogether. When they do describe him, they sometimes draw him from their imaginations or by hasty generalization out of a limited range of observation. Not infrequently their preconceptions influence them more than the facts before them.

Fortunately, quantitative data about instalment buyers, though far from plentiful, are to be had. They make possible some meaningful generalizations, and also give some idea of the limits beyond which generalizations cannot be pushed safely on the basis of our present knowledge. Combined with miscellaneous bits of information from other sources, they reveal some important patterns in instalment buying.

There are two principal bodies of statistics on instalment buyers and their characteristics. The first is the data for 1935–1936, assembled in the *Study of Consumer Purchases* made jointly by the Department of Labor, the Department of Commerce, and the National Resources Committee. Although bits of information about instalment buyers are scattered through the numerous reports published by these agencies,[1] more significant materials for our analysis are in the special tabulations made for Miss Bernstein and subjected by her to a very detailed analysis.[2] The second body of information available for study is in reports from an analogous but much less comprehensive survey made by the Department of Agriculture and the Department of Labor in 1942. They cover consumers' financial operations in 1941, the last year before the outbreak of World War II.[3] A special tabulation of the schedules ob-

[1] The basic statistics were published between 1939 and 1941 by the United States Department of Agriculture, Bureau of Home Economics, in a series of reports under the general titles, *Consumer Purchases Study: Urban and Village Series, Farm Series,* and *Special Reports,* and by the United States Department of Labor, Bureau of Labor Statistics, in a series of reports under the general title, *Study of Consumer Purchases: Urban Series.* The reports of the National Resources Committee are less useful for present purposes.

[2] B. Bernstein, *The Pattern of Consumer Debt, 1935–1936.*

[3] United States Department of Agriculture, *Rural Family Spending and Saving in Wartime,* and United States Department of Labor, *Income and Spending and Saving of City Families in Wartime.*

tained by the Department of Labor for city consumers was made for analysis by the present writer.[4] Data from the first of these sources form the basis for the present chapter. Those from the second are presented in Chapter 6.

Deficiencies in the Statistics.—Certain limitations of these data must be kept in mind. The *Study of Consumer Purchases* restricted itself to a few rigidly specified types of family. Among those omitted were families of two persons married less than a year, who presumably would be relatively heavy instalment buyers. Negroes and the foreign born were not adequately represented in the sample. *Spending and Saving in Wartime* assembled information from a sample more nearly representative of the entire population, but the sample was extremely small. It should also be noted that the special tabulations made for the present writer covered only city consumers. They did not include schedules from consumers living in places of less than 2,500 population or from consumers living on farms.

Both sets of data suffer from the weakness that what they have to say about instalment buying comes indirectly from schedules concerned primarily with other matters. Each schedule gives a complete estimate of the income and expenditures of a consuming unit during a full year.[5] In order to balance the income and expenditures, the interviewers obtained information on net changes in savings and debts, classified by type. Consuming units that reported changes in outstandings under instalment purchase debts during the year in question were classified as instalment buyers, although their purchases were not necessarily made during the year in question. For technical reasons discussed in the original sources, Miss Bernstein used net changes (i.e., both increases and decreases) during the year as her basic data, whereas the present writer used only units having net increases. In each instance there are reasons for believing that the totals somewhat understate the number of consumers who made some use of the plan during the year. The totals may thus be considered conservative estimates that err on the side of understatement.

Another limitation of the data lies in their failure to cover all phases of the business cycle. The years 1935–1936 fell in the expansion stage of the business cycle, and in 1941 the cycle reached its peak. These data thus tell nothing about consumers' instalment buying during periods of contraction and depression.

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4 R. Cox, *Installment Buying by City Consumers in 1941.*

5 The term "consuming unit" is used in preference to "family," especially for the 1941 study, because some of the schedules in that survey came from single persons and so-called "broken families." For detailed descriptions of these statistics, analyses of their limitations and a statement of the important differences between the two series, see the original studies by Bernstein and Cox, cited above, and Appendix A below.

Because they are limited to a single year for each consuming unit in each survey, these data also tell us little as to how many of the units in existence in those years had made use of instalment buying in earlier years or would do so in later ones. In other words, they do not permit one to follow a group of typical consumers through their full life cycle. Since it is almost certain that the use of instalment buying depends strongly upon the stage of its life cycle in which a family finds itself, this shortcoming is very important. The figures do not permit a test of statements frequently made that 90 or 95 per cent of the people buy on credit in some form at some time, and that a very large proportion of these buy something or other on instalments at some time during their lives, even though they do not use the plan regularly.

Variations by Income Level.—Table 18 shows that in 1935–1936, at least one fourth of the country's 24,913,000 nonrelief consuming units used the instalment plan of purchasing. Of the 5,877,000 families who bought on instalments during the year, 71.8 per cent had incomes of between $750 and $2,500. In comparison, only 63.3 per cent of all nonrelief families fell in this income range. The percentage of instalment buyers was largest in the income class between $1,750 and $2,000, where 31.9 per cent of the units made use of the plan during the year. The income class from $2,000 to $2,500 was almost as heavy an instalment buyer, with 30.2 per cent. Each income class between $750 and $1,750 and between $2,500 and $5,000 had a percentage of between 20 and 30 per cent. Only at the extremes did fewer than 20 per cent of the families buy on instalments.

Although instalment buying tends to cluster in the middle-income brackets, the quantitative importance of the extremes is not small, since 1,275,000 instalment buyers (28.2 per cent of the total) fell on either side of the $750-to-$2,500 brackets. Furthermore, as we shall see in Chapter 25, the dollar amounts of purchases on instalments in the upper-income levels are much greater than those at the lower levels. Measured by dollar volume rather than by number, upper-income families bulk much larger than Table 18 might lead one to think.

Table 19 shows that wage earners made a somewhat freer use of instalment buying than other nonfarm groups among the population in 1935–1936. The difference was small, however, 29.6 per cent of the wage-earning families having bought on instalments, as compared with 26.4 per cent of the other nonfarm families. The wage-earning families using the instalment plan were concentrated largely within the $750-to-$2,500 income range. The other families using the instalment plan were concentrated predominantly in the range between $1,000 and $3,000.

TABLE 18

NUMBER OF NONRELIEF FAMILIES, NUMBER AND PER CENT USING INSTALMENT SALE CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT), AND PERCENTAGE DISTRIBUTION OF THESE FAMILIES AND OF ALL NONRELIEF FAMILIES, BY INCOME LEVEL, 1935–1936

Income Level	Number of All Nonrelief Families (In thousands)	Number of Nonrelief Families Having a Net Change (In thousands)	Per Cent of Nonrelief Families Having a Net Change	Percentage Distribution	
				Nonrelief Families Having a Net Change	All Nonrelief Families[a]
Under $ 500	2,641	313	11.9	5.3	10.6
$ 500– 750	2,815	473	16.8	8.1	11.3
750– 1,000	3,338	711	21.3	12.1	13.4
1,000– 1,250	3,289	819	24.9	13.9	13.2
1,250– 1,500	2,691	743	27.6	12.6	10.8
1,500– 1,750	2,267	655	29.0	11.1	9.1
1,750– 2,000	1,819	580	31.9	9.9	7.3
2,000– 2,500	2,367	715	30.2	12.2	9.5
2,500– 3,000	1,295	379	29.3	6.5	5.2
3,000– 4,000	1,196	284	23.8	4.8	4.8
4,000– 5,000	398	86	21.5	1.5	1.6
5,000 and over	797	119	15.0	2.0	3.2
All levels	24,913	5,877	23.6	100.0	100.0

[a] National Resources Committee, *Consumer Incomes in the United States* (1938), Table 8, p. 25.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–1936*, National Bureau of Economic Research, 1940, Table A-1, p. 124. The first two columns were calculated by the author from data in the source table.

TABLE 19

PER CENT OF NONRELIEF FAMILIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT) AND PERCENTAGE DISTRIBUTION OF THESE FAMILIES AND OF ALL NONRELIEF FAMILIES, IN TWO OCCUPATIONAL GROUPS,[a] BY INCOME LEVEL, 1935–1936

Income Level	Per Cent of Nonrelief Families Having a Net Change		Percentage Distribution			
			Nonrelief Families Having a Net Change		All Nonrelief Families[b]	
	Wage-earning Group	Other Nonfarm Groups	Wage-earning Group	Other Nonfarm Groups	Wage-earning Group	Other Nonfarm Groups
Under $ 500	15.0	13.5	5.3	1.8	10.6	3.4
$ 500– 750	23.3	16.9	9.5	3.3	12.0	5.1
750– 1,000	28.7	21.0	15.9	6.4	16.3	8.0
1,000– 1,250	31.3	25.7	17.4	10.0	16.4	10.2
1,250– 1,500	32.9	29.7	14.2	11.3	12.8	9.9
1,500– 1,750	34.8	30.2	11.6	11.8	9.9	10.2
1,750– 2,000	39.0	32.0	9.8	11.7	7.5	9.6
2,000– 2,500	33.8	31.4	9.2	17.7	8.0	14.7
2,500– 3,000	33.0	30.1	4.4	10.1	3.9	8.7
3,000– 4,000	31.5	23.7	2.7	8.2	2.6	9.0
4,000– 5,000	[c]	22.4	[c]	3.0	[d]	3.5
5,000 and over	[c]	16.2	[c]	4.7	[d]	7.7
All levels	29.6	26.4	100.0	100.0	100.0	100.0
Estimated number of families (in thousands)	–	–	2,776	2,205	–	–

[a] The occupational status of the family is determined according to the major source of family earnings, i.e., if members of the family received earnings from two or more occupations, the family was classified according to the occupation from which the greater proportion of total family earnings was derived. The "other nonfarm" category includes professional and business occupations, whether salaried or independent, and clerical occupations.

[b] National Resources Committee, *Consumer Incomes in the United States*, (1938), Table 10B, p. 97.

[c] Data not available.

[d] Wage-earning families in these income levels were excluded from calculations of the percentage distribution of all nonrelief families.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–1936*, National Bureau of Economic Research, 1940, Table A-7, p. 130.

Figures such as these contradict impressions that may be obtained from various writers and from interviewing instalment merchants concerning the nature of the instalment market. It seems to be widely believed that the instalment business is limited to the lower-paid clerical and factory workers. In fact, as these tables show, instalment buying must be considered a significantly important practice at all income levels. Impressions to the contrary apparently grow out of the fact that the absolute number of low-paid workers is large, as well as out of the relatively heavy use of the instalment system by these people. Individual merchants also tend to be influenced in their judgments by limitations on their own trade. Very few of them appeal to all classes in a community. In effect they choose their customers by their location, the kinds and qualities of goods they sell, the sorts of facilities and services they provide, their policies in pricing and advertising, the standards they set in granting credit, and the terms on which they sell. Even if the merchant really knows the incomes of his customers, and many retailers do not, one can easily mislead himself by looking only at some conspicuous specialist in selling on instalments to low-income consumers. A careful search may be needed to locate the merchants who sell on instalments to consumers in the high-income brackets.

A Comparison of Urban and Rural Families.—Instalment credit is presumably better adapted to the needs of city consumers than to those of farmers because the ways in which city people receive their income make it more convenient for them to pay in a series of regularly scheduled instalments. Furthermore, the development of impersonal and discontinuous relations between retailer and consumer in the city makes it necessary for the retailer to insist upon the consumer's having a systematic, scheduled, and enforceable plan for repaying debts. Finally, a large proportion of farm homes in the past have lacked the electric and gas facilities necessary for many of the household appliances commonly bought on instalments, although this situation has changed greatly in recent years.

One would, accordingly, expect city consumers to use this plan much more than rural consumers. This expectation is borne out (at least insofar as 1935–1936 is concerned) by Table 15. Only 11.5 per cent of the families living on farms made use of the instalment plan during 1935–1936, as compared with 27.5 per cent of the nonfarm families.

Some merchants (including at least one of the large mail-order houses) have experimented on a limited scale with instalment terms set specifically to meet the needs of farmers. These sometimes have taken the form of terms adjusted to the harvest seasons of the farmer or to the ways in which his income flows from a combination of farming and

other work. Apparently the plans did not produce results strikingly satisfactory to the sellers, as they have not grown into parts of the firms' operating routines.

Farmers, in any event, have less need for special terms nowadays than in the past. Diversification of crops, the growth of the demand for goods that are produced all year, such as dairy and poultry products, and the decentralization of livestock marketing, illustrate changes that make the flow of income to many farmers almost as regular as wages and salaries. Their failure to use instalments more heavily evidently rests on other reasons. Some farmers doubtless find it quite possible to finance the purchase of farm implements, household equipment, and automobiles through the banks that finance their other operations, even though they are not forced to do so by the nature of their flows of income.

More detailed information concerning the use and nonuse of instalment buying by two very small samples of farmers is offered by the Department of Agriculture in Tables B-9 and B-10. Table B-9 presents data for a so-called "farm analysis unit" in Illinois and Iowa in 1935–1936. It shows that 13.7 per cent of the farm families surveyed had balances on instalment contracts outstanding at the end of the year. Increases in outstandings during the year were reported by 12.4 per cent of the families, and decreases by 4.9 per cent. Even these relatively low percentages do not all represent consumers' purchases, strictly speaking. Much of the instalment credit was unquestionably used by the farmers for business rather than for personal consumption. This is shown by the fact that 7.2 per cent of the families reported increases, and 3.7 per cent reported decreases in instalment debt incurred for the purchase of farm equipment. Increases in debt occasioned by purchases of automobiles were reported by 4.6 per cent of the families, and decreases by 1.2 per cent. Farm equipment is, of course, a business purchase. Automobiles also are used heavily as a business instrument on the farm.

In Table B-10 the Department of Agriculture reported on automobile purchases alone by farmers in 1935–1936, using for this purpose a "farm analysis unit" of 2,254 families in Pennsylvania and Ohio. Of these families, 416, or 18.5 per cent, bought automobiles during the year. Of the 416 cars, in turn, 56, or 13.5 per cent, were bought on instalments, and 360, or 86.5 per cent, for "cash." The figures mean less than they might, however, since "cash" transactions apparently include purchases made from borrowed funds. Of the 129 cars bought new, only 14 (or 10.9 per cent) were bought on instalments, whereas of the 287 used cars bought, 42 (or 14.6 per cent) were bought on instalments. Even for used cars, however, the use of instalment credit

by these farm buyers of automobiles was far below the level established in the country at large as shown in earlier tables. As would be expected, purchases of new cars were concentrated more heavily at the upper income levels, and purchases of used cars more heavily at the lower. There were no clear differences in instalment purchasing as among different income levels.

A Comparison of Farm and Village Families.—Significant differences between farm families and nonfarm families in rural districts are revealed in Table B-11. Here the Department of Agriculture computed figures for 3,042 families in a "village analysis unit" representing the Middle Atlantic and North Central states. Of these families, 15.4 per cent owed balances on instalment purchases at the end of the year, as compared with 13.7 per cent of the farm families; 13.9 per cent had increases over the year, as compared with 12.4 per cent; and 5.3 per cent had decreases, as compared with 4.9 per cent.

More significant than these small differences are those in the uses the two groups made of instalment buying. As Table B-9 shows, business equipment was a large factor in the farmer's instalment buying. Among village families, Table B-11 shows, business equipment played a small role in instalment buying. As objects of instalment buying, automobiles were only slightly more important among village families than among farm families. The conclusion seems inescapable that consumers' goods other than automobiles provided the principal differences between farmers and village people in their use of the instalment system. This is to be expected. Presumably, a larger percentage of village people than of farmers work and live under conditions that make instalment buying useful to them. Whatever the cause, the differences should be kept in mind. It is only too easy to forget that the so-called "rural" population includes many people who are not farmers.

Differences, according to income, in the use of the instalment system follow the general pattern shown in the tables earlier considered. The use of instalment buying is noticeably more frequent in the middle groups than at either extreme. Use of the instalment system seems, however, to reach its peak at slightly lower levels of income among village people than among the general population.

Automobile purchases by village families during the year, shown in Table B-12, have some patterns much like those of farmers in Table B-10, but also important differences. As among farmers, purchases of new cars are concentrated at higher income levels, and purchases of used cars at lower. Instalment purchases similarly tend to cluster a bit closer to the lower end of the income scale than do cash purchases either of new or of used cars, although the difference is not great. On the other

hand, the village people buy automobiles on instalments more commonly than do farmers.

Instalment Buying by Rural Negroes.—The Department of Agriculture also gives a glimpse of the extent to which rural and small-city Negroes in the South bought on instalments in 1935–1936. In the small cities of the Southeast, as Table B-13 shows, instalment buying by Negroes was widespread, ranging from 14.9 per cent of the families at the income level of $249 or less, to 33.0 per cent of the families with incomes of $750 to $999, and back to 10.0 per cent at incomes of $1,250 to $1,499, the highest in the sample. These figures tend to confirm the judgment of merchants interviewed throughout the South that Negroes provide a large and important part of the instalment market.

Negroes in the villages of the Southeast apparently bought on instalments somewhat less frequently than in the small cities, but the sample at some income levels is probably inadequate. Negro farm operators used the instalment plan much less than did village and small-city Negroes, but there was little difference between these families and the Negro share-croppers. Much more striking is the difference between farm Negroes in the Carolinas and those in Georgia and Mississippi. The reasons for the proportionately small development of instalment buying in the deep South are not readily apparent. It also is interesting to note that the white share-croppers do not use the instalment plan any more than do the Negroes in the two areas sampled, although here again the sample is extremely small.

Variations by Size of City.—Table 15, which we first considered for other purposes in Chapter 3, is of interest for the light it throws upon differences among urban communities of different sizes. The most conspicuous fact in Table 15 is that families in the largest cities use instalment buying less than the average. This apparently is a result chiefly of the lower incidence of automobile ownership in the metropolis than in the smaller city. Traffic congestion and high garage rents make ownership of automobiles relatively expensive. At the same time, the high development of public transportation in the metropolis makes the automobile relatively less useful.

Another factor affecting the use of instalment buying in the larger cities is the greater incidence of apartment living. This factor tends to reduce the quantity of furniture required by the average family. Furthermore, items such as refrigerators, ranges, heating systems, and water heaters are commonly provided by the landlord of an apartment house rather than bought by the families themselves.

It will be noted in Table 15 that at the highest income levels the incidence of instalment buying differs very little among the various types

TABLE 20

PER CENT OF NONRELIEF FAMILIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT), IN FIVE REGIONS,[a] BY INCOME LEVEL, 1935–1936

Income Level	New England	North Central	South	Mountain and Plains	Pacific	All Regions
Under $ 500	10.7	7.6	13.3	13.0	13.0	11.9
$ 500– 1,000	24.7	16.5	20.6	18.4	25.2	19.2
1,000– 1,500	27.5	22.3	32.1	26.2	33.6	26.1
1,500– 2,000	27.1	25.4	37.6	34.8	42.1	30.2
2,000– 2,500	24.3	22.5	41.0	32.7	40.3	30.2
2,500– 3,000	22.7	24.4	38.8	33.0	37.4	29.3
3,000– 4,000	15.7	20.6	29.0	29.5	29.7	23.8
4,000– 5,000	12.8	18.7	28.8	23.6	23.7	21.5
5,000 and over	14.8	11.6	22.4	13.5	16.2	15.0
All levels	24.3	20.3	25.9	24.6	32.6	23.6

[a] New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.
North Central: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, New Jersey, New York, Ohio, Pennsylvania, Wisconsin.
South: Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia.
Mountain and Plains: Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah, Wyoming.
Pacific: California, Oregon, Washington.
Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-31, p. 154.

of community. The significance of this is not altogether clear. Some doubt exists as to whether the sample of consumers at these levels is adequate.

Regional Variations.—Differences in the distribution of the population, as between farm and nonfarm, and as among cities of different size, doubtless go far toward explaining regional variations in the use of instalment buying indicated by Table 20. New England, the South, the Mountain and Plains States differ very little from one another or from the national average, but the North Central States are substantially below the average and the Pacific States substantially above. If the differences are real and not the results of faulty sampling, the lower proportion in the North Central States probably can be explained by the fact that this region (as delimited by Table 20) includes most of the country's metropolises. These states also include substantial village and farm populations, who, as we have seen, tend to make a less-than-average use of the instalment system.

The reasons for the apparently high level of instalment buying in the Pacific States are not so readily apparent. One reason may lie in the fact that, having grown up largely in the automobile age, many sections of these states depend more heavily than the rest of the country upon private transportation and so upon the use of instalment buying.

Table B-14 also permits some regional comparisons. It was computed by the Department of Agriculture for four "small-city analysis units" and five "village analysis units" scattered through twenty-two states. In all regions of the country small cities and villages both show the characteristic clustering of instalment credit use at the middle-income levels. As one would expect, families in small cities buy on instalments more frequently than families in villages. Differences among geographic regions are not so clearly established as in Table 20, but the relatively large use of instalment buying in the South and the Far West, and its relatively low use in the Middle Atlantic and North Central States, appear in most of the columns of this table too.

Variations by Size of Family.—Since the kinds of durables a family needs vary according to its composition, it would seem reasonable to conclude that variation in family size has an appreciable influence upon instalment buying. As a test of this possibility, Miss Bernstein tabulated her data by family size for the North Central region. Her results, summarized in Table 21, suggest the following three conclusions:

1. For all families combined, the use of instalment buying varies only moderately among families of different size.

2. There is a difference (perhaps significant) between families above and those below $2,500 income. At levels below $2,500, the proportion of families buying on instalments rises as the size of the family increases but falls off as very large families are reached. Above incomes of $2,500, the percentage of families buying on instalments rises sharply all the way as size of family increases.
3. Apparently, frequency of use rises as family size increases, until the number exceeds six.

The third conclusion profoundly affects the earlier conclusion drawn from several tables that instalment buying finds its greatest utility in the middle range of income. Table 21 suggests that the boundaries of this range are set not by the absolute size of the income alone but by income in relation to family needs. At the lower levels of income families can acquire some durables and semidurables by the aid of instalment buying if the family's size is such as to hold down the strain on the family budget. The smaller the family, the lower the income level at which instalment goods can be acquired. In the higher levels of income the situation seems to be different. Here, apparently, the size of the family determines the level at which instalment goods can be acquired without the use of the instalment system. The smaller the family, the

TABLE 21

PER CENT OF NONRELIEF FAMILIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT) IN THE NORTH CENTRAL REGION,[a] FOR FOUR SIZES OF FAMILY, BY INCOME LEVEL, 1935–1936

Income Level	Size of Family			
	2 Persons	3–4 Persons	5–6 Persons	7 Persons or More
Under $ 500	6.7	11.0	6.7	2.2
$ 500– 1,000	13.7	16.3	18.7	16.1
1,000– 1,500	19.6	23.7	22.1	16.5
1,500– 2,000	20.4	24.5	24.7	20.8
2,000– 2,500	20.6	27.6	25.2	23.6
2,500– 3,000	18.8	23.4	23.7	30.1
3,000– 4,000	14.1	19.9	23.3	28.8
4,000– 5,000	7.5	16.8	26.0	26.3
5,000 and over	1.8	10.9	17.3	19.8
All levels	16.1	21.5	22.0	19.5

[a] The North Central region includes Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-13, p. 136.

larger the margin from which such goods can be bought for cash or on other credit terms and the smaller the use made of the instalment plan. This tendency probably is reinforced by another tendency for the need for instalment goods to be smaller in the smaller families.[6]

At least two qualifications limit conclusions suggested by Table 21. First, since the data are fragmentary, these ideas should be taken as probabilities, not as certainties. Second, some use of instalment buying is made by families of all sizes at all income levels. In other words, income and family size are evidently only two out of many factors that determine whether a family will buy on instalments. Other possible influences should be explored.

The Influence of Family Life Cycles.—Although Miss Bernstein's data are static in the sense that they make a cross section at a given time, they probably reflect differences among families not only according to current economic status, size, and place of residence, but also according to the position of each family in its life cycle. The income level at which a family finds itself is determined in part by wage and salary levels in the occupations of the earning members. It also is determined in part by a number of factors that normally change for it, over time, within its economic and social status. The principal income earner, for example, normally would be expected to go through a life cycle in which his earnings rise over a period of years to a peak from which they sooner or later decline. The number of earners in the family, the levels of their earnings, and the proportions of their earnings they contribute to the family will change over time. Correspondingly, a family's purchases will vary as its composition and the age and needs of its members inexorably change.

All these factors probably have as much effect, if not more, upon the use it makes of instalment buying than the size of income itself. For example, a new family with a relatively low income, when it is in the rising phase of its earning cycle may buy furniture on instalments rather than an automobile, primarily because it is establishing its home and only secondarily because its income level is low. On the other hand, families of high income may buy automobiles instead of furniture on instalments because they already have their basic stocks of furniture rather than because their incomes are relatively high. In the absence of studies of individual families over time, such problems can be discussed only vaguely and with a large proportion of guesswork. It is clear, however, that anyone using these figures must interpret them carefully

[6] Economists have given much less study to the influence of family size upon expenditures than to the influence of income. A recent exception may be noted: Eric Schiff, "Family Size and Residential Construction," 36 *American Economic Review* (March, 1946), pp. 97–112.

in order to avoid drawing erroneous conclusions as to the use of instalment buying by families over their full life cycle. Individual families will shift about from one cell to another in successive static tables such as these, and much of what the figures show may be explained by what is happening, over time, better than by the relationships evident at the specific moment of investigation.

There can be little doubt that some of the most important economic functions of instalment buying will become manifest only when the life histories of representative families can be recorded and analyzed. In particular, a study of the life cycles of families should throw light upon the reasons why many consumers would be willing to pay price differentials greater than are actually charged them in return for the immediate possession of goods. Sometimes consumption may not be postponable; the goods must be used at a particular stage in the family's life or not at all. Advising consumers to save for later consumption may thus be a very Spartan recommendation indeed.

Variations by Types of Goods.—Data on how consumers use instalment buying permit a check on the discussion in Chapter 2 concerning the importance of different commodities in the structure of instalment buying. Table 22, for reasons described in the original source, covers only families in cities of 25,000 population or more. It gives only a rough approximation of the facts, since the consumer schedules used

TABLE 22

PERCENTAGE DISTRIBUTION OF ALL CHANGES IN INSTALMENT DEBT AND OF INCREASES AND DECREASES IN SUCH DEBT FOR NONRELIEF FAMILIES IN CITIES, BY COMMODITY,[a] 1935–1936

Commodity	All Instalment Debt Changes	Increases in Debt	Decreases in Debt
Automobiles	20.0	22.5	14.6
Furniture	31.4	27.0	41.2
Electric refrigerators	15.4	14.5	17.4
Radios	8.2	9.4	5.8
Other electric equipment	15.2	15.9	13.5
Miscellaneous	9.8	10.7	7.5
All commodities	100.0	100.0	100.0
Estimated number of debt changes (in thousands of units)	3,799	2,618	1,181

[a] Based on data from metropolises and large and middle-sized cities exclusively. The estimates of all debt changes do not cover changes for families living in small cities, villages, and farms.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-14, p. 137.

gave only fragmentary data. Within these limits, however, it suggests some important patterns.

Insofar as these city families are concerned, furniture and household equipment were the items bought on instalments most frequently. To be specific, furniture, electric refrigerators, other electric equipment, and radios were the items purchased in 70.2 per cent of the transactions recorded. Automobiles were bought in only 20 per cent of the instalment purchases. The "miscellaneous" group accounted for only 9.8 per cent. Table 23 shows that, when use of instalment buying is measured by dollar volume rather than by number of transactions, automobiles alone account for more than half of the total. The widespread belief to which reference already has been made that the automobile trade is the instalment business is qualified by these tables. It has no truth as regards number of transactions, and is true in smaller degree than one might have been led to expect as regards dollar volume.

TABLE 23

PERCENTAGE DISTRIBUTION OF GROSS INCREASE, GROSS DECREASE, AND NET INCREASE IN INSTALMENT DEBT FOR NONRELIEF FAMILIES IN CITIES, BY COMMODITY,[a] 1935–1936

Commodity	Gross Increase[b]	Gross Decrease[c]	Net Increase[d]
Automobiles	50.5	36.7	58.9
Furniture	17.8	37.1	6.2
Electric refrigerators	14.6	13.2	15.4
Radios	3.4	2.1	4.1
Other electric equipment	7.8	6.3	8.7
Miscellaneous	5.9	4.6	6.7
All commodities	100.0	100.0	100.0

[a] Based on data from metropolises, large cities, and middle-sized cities.
[b] Gross increase equals the sum of the increases in instalment debt for each commodity for families having a net increase in such debt.
[c] Gross decrease equals the sum of the decreases in instalment debt for each commodity for families decreasing such debt.
[d] Net increase equals the gross increase for each commodity minus the gross decrease.
Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-15, p. 138.

Variations in Goods Bought by Income Level.—The importance of particular goods in instalment buying varies significantly from one income level to another, according to the limited evidence available. In Table 24, the percentage of city families buying radios on instalments reaches its peak in the $500-to-$750 income group; that for furniture in the $750-to-$1,000 group; miscellaneous goods in the $1,000-to-$1,250 group; electric refrigerators and other electrical equipment in

TABLE 24

PER CENT OF NONRELIEF FAMILIES IN CITIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT), FOR SIX TYPES OF COMMODITY, BY INCOME LEVEL,[a] 1935–1936

Income Level	Automobiles	Furniture	Electric Refrigerators	Radios	Other Electric Equipment	Miscellaneous
Under $ 500	0.3	11.1	0.6	2.2	2.0	2.3
$ 500– 750	1.3	13.1	1.0	5.4	2.7	4.6
750– 1,000	3.4	15.6	4.0	3.7	5.1	3.9
1,000– 1,250	4.8	13.7	6.1	4.6	6.8	4.8
1,250– 1,500	6.1	13.5	6.3	3.3	7.2	4.1
1,500– 1,750	7.8	13.1	8.9	3.5	6.4	2.9
1,750– 2,000	10.1	11.9	9.6	3.6	7.6	4.7
2,000– 2,500	12.5	10.9	8.6	2.5	6.5	3.6
2,500– 3,000	14.5	11.2	7.1	1.6	8.2	2.9
3,000– 4,000	12.6	8.0	5.7	1.4	4.9	3.1
4,000– 5,000	11.4	6.0	4.6	0.9	4.2	3.3
5,000 and over	9.2	2.3	0.9	0.3	1.9	1.6
All levels	7.5	11.8	5.9	3.1	5.8	3.7

[a] Based on data from metropolises, large cities, and middle-sized cities.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-16, p. 139.

TABLE 25

PERCENTAGE DISTRIBUTION OF NONRELIEF FAMILIES IN CITIES USING INSTALMENT CREDIT (AS INDICATED BY A NET CHANGE IN THEIR INSTALMENT DEBT), FOR SIX TYPES OF COMMODITY, AND OF ALL NONRELIEF FAMILIES, BY INCOME LEVEL,[a] 1935–1936

Income Level	Automobiles		Furniture		Electric Refrigerators		Radios		Other Electric Equipment		Miscellaneous		All Nonrelief Families	
		Cumulated		*Cumulated*		*Cumulated*		*Cumulated*		*Cumulated*		*Cumulated*		*Cumulated*
Under $ 500.....	0.2	0.2	5.9	5.9	0.5	0.5	4.3	4.3	2.2	2.2	3.9	3.9	6.2	6.2
$ 500– 750.....	1.3	1.5	8.2	14.1	1.3	1.8	12.9	17.2	3.5	5.7	9.3	13.2	7.4	13.6
750– 1,000.....	4.8	6.3	14.2	28.3	7.4	9.2	12.8	30.0	9.6	15.3	11.4	24.6	10.8	24.4
1,000– 1,250.....	7.9	14.2	14.3	42.6	13.0	22.2	18.3	48.3	14.6	29.9	16.1	40.7	12.3	36.7
1,250– 1,500.....	8.9	23.1	12.5	55.1	11.9	34.1	11.7	60.0	13.8	43.7	12.2	52.9	11.0	47.7
1,500– 1,750.....	10.5	33.6	11.2	66.3	15.5	49.6	11.4	71.4	11.3	55.0	8.0	60.9	10.1	57.8
1,750– 2,000.....	12.2	45.8	9.2	75.5	15.0	64.6	10.6	82.0	12.1	67.1	11.7	72.6	9.1	66.9
2,000– 2,500.....	20.3	66.1	11.4	86.9	17.9	82.5	10.1	92.1	13.8	80.9	12.1	84.7	12.2	79.1
2,500– 3,000.....	13.5	79.6	6.7	93.6	8.6	91.1	3.6	95.7	10.1	91.0	5.6	90.3	7.0	86.1
3,000– 4,000.....	11.0	90.6	4.3	97.9	6.4	97.5	3.1	98.8	5.7	96.7	5.5	95.8	6.6	92.7
4,000– 5,000.....	3.5	94.1	1.2	99.1	1.8	99.3	0.7	99.5	1.7	98.4	2.1	97.9	2.4	95.1
5,000 and over...	5.9	100.0	0.9	100.0	0.7	100.0	0.5	100.0	1.6	100.0	2.1	100.0	4.9	100.0
All levels...	100.0	–	100.0	–	100.0	–	100.0	–	100.0	–	100.0	–	100.0	–

[a] Based on data from metropolises, large cities, and middle-sized cities.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-17, p. 140. Noncumulative figures were inserted by the author.

TABLE 26

PERCENTAGE DISTRIBUTION OF THE NET INCREASE IN INSTALMENT DEBT FOR NONRELIEF FAMILIES IN CITIES, FOR SIX TYPES OF COMMODITY, BY INCOME LEVEL,[a] 1935–1936

Income Level	Automobiles	Furniture	Electric Refrigerators	Radios	Other Electric Equipment	Miscellaneous
Under \$ 500	0.1	7.1	0.5	5.1	0.1	2.0
\$ 500– 1,000	2.5	16.4	11.1	22.4	15.1	14.5
1,000– 1,500	13.4	39.5	29.2	33.2	26.2	20.9
1,500– 2,000	26.9	38.0	30.5	17.5	24.7	18.9
2,000– 2,500	20.7	6.5	18.1	9.6	17.5	18.5
2,500– 3,000	12.7	1.2	5.5	6.0	8.0	8.8
3,000– 4,000	9.9	1.2	4.6	5.4	7.1	11.2
4,000– 5,000	3.6	[b]	[c]	0.2	1.0	4.7
5,000 and over	10.2	[b]	0.8	0.6	0.3	0.5
All levels	100.0	100.0[b]	100.0[c]	100.0	100.0	100.0

[a] Based on data from metropolises, large cities, and middle-sized cities. Net increase in debt equals gross increase minus gross decrease.
[b] The total is actually 109.9 per cent because there was a net decrease in debt in the income level of \$4,000–5,000 of 3.8 per cent, and in the level of \$5,000 and over of 6.1 per cent.
[c] The total is actually 100.3 per cent because of the net decrease in debt of 0.3 per cent in the income level \$4,000–5,000.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-18, p. 141.

the $1,750-to-$2,000 group; and automobiles in the $2,500-to-$3,000 group. Table 25 portrays the same general situation in another way. It shows that 82 per cent of the families using instalment credit to buy radios, 75.5 per cent of those buying furniture on instalments, 72.6 per cent of those buying miscellaneous goods on instalments, 67.1 per cent of those buying electrical equipment other than refrigerators and radios on instalments, and 64.6 per cent of those buying electric refrigerators had incomes of less than $2,000. In contrast, only 45.8 per cent of those who bought automobiles on instalments had incomes of less than $2,000.

Table 26 shows that when the data are given in dollars rather than in transactions, the basic conclusion still holds. In every type of commodity except automobiles the dollar volume of net debt assumed during the year by families with incomes below $2,000 substantially exceeded that of families above this income level. On the other hand, the net debt incurred by automobile buyers above the $2,000 level substantially exceeds that incurred by families below that level. Particularly noteworthy is the heavy concentration of debt increases among automobile buyers in the income levels from $3,000 up.

Evidently instalment buying means quite different things to families in different circumstances. For families in the upper-income levels instalment buying is predominantly a matter of buying automobiles. The automobile represents a unit outlay too large to be handled conveniently even at these levels of income as a cash or charge purchase. At middle- and lower-income levels the automobile ranks large, but only as one commodity among many. To consumers at these levels instalment buying is primarily the device by which they finance the furnishing and equipping of their homes.

CHAPTER 6

WHO BUYS ON INSTALMENTS (CONTINUED)

The data presented in Chapter 5 provide a meaningful and extensive picture of the instalment buyer and his ways, as of the middle 1930's. By drawing upon the similar but less ambitious study by the present writer, referred to at the beginning of Chapter 5, the picture can be brought down to 1941 as regards city consumers. Thereafter instalment buying diminished to the point where it became almost a negligible factor in the economy. Until it has recovered to what will be its postwar normal, which presumably will happen after the present study has come from the press, 1941 is as near to the present as it is worth while to come with an elaborate survey. The year 1941 is especially significant, in any event, since it was the last normal prewar year, and in it instalment buying reached a peak thus far attained in no other year.

The Data Available for 1941.—The raw data available for analysis are of the same general type as those obtained in the 1935–1936 study, but differ from them in several important respects:

1. They come from a very small stratified sample of consumers. The validity of any conclusions derived from them thus depends upon the reliability of such samples as a statistical device, and upon the ways the technique was applied in this particular instance. For present purposes it is assumed that these were sound enough to give the conclusions a rough validity.
2. They cover only consumers living in cities and towns of 2,500 or more population. Farm families and nonfarm families living in smaller places are omitted. Exceptions will be found in one or two tables, drawn from a concurrent study of farm and village families, made by the Bureau of Home Nutrition and Home Economics.
3. The sample covers consumers on relief, single individuals living alone, the foreign born, and a better representation of Negroes than was obtained in the 1935–1936 survey. The schedules thus offer some information not available from the earlier study.

Changes Between 1935–1936 and 1941.—A comparison of Tables 15 and 16 shows that the proportion of consumer units buying goods on

instalments rose very sharply between 1935–1936 and 1941. Whereas Table 15 shows that 27.5 per cent of the nonfarm families of the country had net changes in their instalment-sale debt in 1935–1936, Table 16 shows a percentage of 29.9 for net increases alone in 1941. If consumer units decreasing their net instalment-sale debt in 1941 were added to give a total of net changes, the figure would reach at least 33 per cent, probably would go to 35 or 36 per cent, and might go even higher. These are the figures to compare with the 27.5 per cent for 1935–1936 in Table 15.

The change between the two periods was not evenly distributed over all income levels. Instalment buying by families at income levels below $2,000 barely held its own or actually declined. The increase is concentrated at income levels above $2,000. It is particularly striking in the $2,500-to-$3,000 group.

Who Bought on Instalments in 1941?—The principal ways in which the 1941 study confirms, corrects, and extends the detailed conclusions for 1935–1936 presented in Chapter 5 can be summarized under nine headings:

1. *Instalment Buying by Occupational Groups.* Wage earners bought on instalments more frequently than other nonfarm groups, Table 27 shows. This corresponds to the findings for 1935–1936 (shown in Table 19), but apparently in 1941 the difference between wage earners and other occupational groups had widened. Of the wage earners, 37.1 per cent used the instalment buying plan in 1941. Salaried workers and the self-employed, in 1941, had almost equal percentages of instalment buyers (26.3 and 26.6 per cent, respectively) and apparently had changed little since 1936. Because of their numerical importance in the population, wage earners represented nearly two thirds (62.9 per cent) of all instalment buyers, whereas salaried workers were 22.3 per cent, and the self-employed only 10.4 per cent. Particularly interesting is the indication of Table 27 that even people on relief and those who had retired made an appreciable use of instalment buying. The sample is too small and the classification too uncertain, however, for the figures to be considered very reliable.

2. *Instalment Buying by Income Groups.* Table 28 shows that these differences persist at all income levels, so that they cannot be attributed primarily to differences of income. The differences among occupations are more marked at the extremes than in the middle-income levels. Also noteworthy is the fact that wage earners in 1941 were buying as freely on instalments in the income levels above $3,000 as in the $2,000-to-$3,000 group. This is probably attributable to the war boom, as work-

TABLE 27

DISTRIBUTION OF INSTALMENT AND NONINSTALMENT CONSUMER UNITS BY SPECIFIED CHARACTERISTICS

Class of Consumer Units	Distribution of Units Within Classes			Distribution of Units Among Classes		
	Instalment	Noninstalment	All Units	Instalment	Noninstalment	All Units
	Per Cent	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Race: All units[a]	29.9	70.1	100.0	100.0	100.0	100.0
White	29.1	70.9	100.0	89.2	92.6	91.6
Negro	38.2	61.8	100.0	10.8	7.4	8.4
National origin of husband: All units	29.9	70.1	100.0	100.0	100.0	100.0
Native born	36.4	63.6	100.0	76.4	56.7	62.6
Foreign-born	26.3	73.7	100.0	12.6	15.1	14.4
No husband	14.2	85.8	100.0	11.0	28.2	23.0
Living arrangements: All units	29.9	70.1	100.0	100.0	100.0	100.0
Housekeeping	31.9	68.1	100.0	94.8	87.3	88.7
Rooming	13.8	86.2	100.0	5.2	12.7	11.3
Home ownership: All housekeeping units	31.9	68.1	100.0	100.0	100.0	100.0
Living in owned home	29.6	70.4	100.0	41.2	45.9	44.4
Living in rented home	33.8	66.2	100.0	58.8	54.1	55.6
Region: All units	29.9	70.1	100.0	100.0	100.0	100.0
New England and Middle Atlantic	30.2	69.8	100.0	36.8	36.2	36.3
East North Central	29.2	70.8	100.0	23.4	24.1	23.9
South Atlantic, East and West South Central	32.8	67.2	100.0	21.7	18.9	19.8
West North Central, Mountain, and Pacific	27.0	73.0	100.0	18.1	20.8	20.0
Family size (equivalent persons): All units[b]	29.9	70.1	100.0	100.0	100.0	100.0
1 person	9.7	90.3	100.0	4.4	17.4	13.5
2 persons	28.1	71.9	100.0	25.8	28.2	27.5
3 and 4 persons	31.5	68.5	100.0	47.0	43.4	44.5
5 persons and over	46.9	53.1	100.0	22.8	11.0	14.5
Occupational groups: All units[c]	29.9	70.1	100.0	100.0	100.0	100.0
Self-employed	26.6	73.4	100.0	10.4	12.3	11.7
Wage earner	37.1	62.9	100.0	62.9	45.5	50.7
Salaried	26.3	73.7	100.0	22.3	26.5	25.3
WPA, NYA, property income, nonrelief benefits and annuities	10.7	89.3	100.0	4.4	15.7	12.3
Number of earners: All units	29.9	70.1	100.0	100.0	100.0	100.0
None	31.3	68.7	100.0	12.9	12.0	12.3
1 earner	27.0	73.0	100.0	48.4	55.7	53.5
2 earners	31.0	69.0	100.0	25.2	24.0	24.4
3 and 4 earners	38.0	62.0	100.0	11.3	7.8	8.9
5 earners and over	66.7	33.3	100.0	2.2	0.5	9.9
1941 income as compared with 1940: All units	29.9	70.1	100.0	100.0	100.0	100.0
No report	37.0	63.0	100.0	24.2	17.5	19.5
50 per cent or more higher in 1941	39.4	60.6	100.0	15.4	10.1	11.6
25–50 per cent higher in 1941	34.0	66.0	100.0	13.2	10.9	11.6
5–25 per cent higher in 1941	34.6	65.4	100.0	26.7	21.4	23.0
5 per cent higher to 5 per cent lower in 1941	20.2	79.8	100.0	14.3	24.0	21.1
25 per cent lower in 1941	17.0	83.0	100.0	5.2	10.9	9.2
25 per cent or more lower in 1941	8.2	91.8	100.0	1.0	5.3	4.0
Age of head of family: All units	29.9	70.1	100.0	100.0	100.0	100.0
Under 30 years	41.7	58.3	100.0	19.3	11.5	13.8
30 to 39 years	39.6	60.4	100.0	29.9	19.4	22.6
40 to 49 years	29.3	70.7	100.0	23.1	23.7	23.5
50 to 59 years	28.1	72.9	100.0	19.5	21.3	20.7
60 years and over	12.7	87.3	100.0	8.2	24.1	19.4
Size of city: All units	29.9	70.1	100.0	100.0	100.0	100.0
500,000 and over	22.7	77.3	100.0	23.6	34.3	31.1
100,000 and under 500,000	36.6	63.4	100.0	25.8	19.1	21.1
25,000 and under 100,000	30.7	69.3	100.0	20.4	19.5	19.8
Under 25,000	32.2	67.8	100.0	30.2	27.1	28.0

[a] A negligible number of units of other races was omitted from this part of the table.
[b] Equivalent to 1 person in a family for the entire report period; i.e., 12 months, 1941.
[c] Occupational classification of the unit was determined by the major source of earnings or other income. Individual earnings were classified on the basis of the "Dictionary of Occupational Titles," prepared by the U. S. Employment Service.
Source: R. Cox, *Installment Buying by City Consumers in 1941*, pp. 6, 7.

TABLE 28

Distribution of Instalment and Noninstalment Consumer Units Within Specified Classes and Income Groups

Class of Consumer Units	Percentage Distribution of Consumer Units with Annual Income of: Under $1,000			$1,000 and under $2,000			$2,000 and under $3,000			$3,000 and over		
	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total
Race: All units[a]	14.9	85.1	100.0	32.3	67.7	100.0	40.5	59.5	100.0	29.0	71.0	100.0
White	11.6	88.4	100.0	29.8	70.2	100.0	40.1	59.9	100.0	29.0	71.0	100.0
Negro	25.8	74.2	100.0	62.1	37.9	100.0	57.1	42.9	100.0	–	–	–
National origin of husband: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
Native born	26.9	73.1	100.0	38.6	61.4	100.0	42.9	57.1	100.0	30.7	69.3	100.0
Foreign born	4.0	96.0	100.0	20.8	79.2	100.0	39.7	60.3	100.0	23.5	76.5	100.0
No husband	8.5	91.5	100.0	22.6	77.4	100.0	17.4	82.6	100.0	16.7	83.3	100.0
Home ownership: All housekeeping units	17.7	82.3	100.0	33.3	66.7	100.0	42.1	57.9	100.0	29.1	70.9	100.0
Living in owned home	15.6	84.4	100.0	26.5	73.5	100.0	38.4	61.6	100.0	30.4	69.6	100.0
Living in rented home	18.8	81.2	100.0	37.1	62.9	100.0	45.5	54.5	100.0	27.3	72.7	100.0
Living arrangements: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
Housekeeping	17.7	82.3	100.0	33.3	66.7	100.0	42.0	58.0	100.0	29.3	70.7	100.0
Rooming	7.0	93.0	100.0	26.0	74.0	100.0	7.1	92.9	100.0	0.0	100.0	100.0
Region: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
New England and Middle Atlantic	7.7	92.3	100.0	37.8	62.2	100.0	37.0	63.0	100.0	24.7	75.3	100.0
East North Central	5.1	94.9	100.0	28.4	71.6	100.0	43.6	56.4	100.0	31.6	68.4	100.0
South Atlantic, East and West South Central	28.0	72.0	100.0	28.6	71.4	100.0	47.7	52.3	100.0	35.3	64.7	100.0
West North Central, Mountain and Pacific	13.0	87.0	100.0	30.1	69.9	100.0	38.2	61.8	100.0	29.7	70.3	100.0
Size of unit (equivalent persons): All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
1 and 2 persons	13.0	87.0	100.0	23.1	76.9	100.0	34.6	65.4	100.0	20.0	80.0	100.0
3 persons and over	17.6	82.4	100.0	41.0	59.0	100.0	43.3	56.7	100.0	31.4	68.6	100.0

TABLE 28 (*Continued*)

Class of Consumer Units	Percentage Distribution of Consumer Units with Annual Income of											
	Under $1,000			$1,000 and under $2,000			$2,000 and under $3,000			$3,000 and over		
	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total	Instalment	Noninstalment	Total
Occupational group: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
Self-employed	13.0	87.0	100.0	32.4	67.6	100.0	33.3	66.7	100.0	24.0	76.0	100.0
Wage earner	20.5	79.5	100.0	37.5	62.5	100.0	45.8	54.2	100.0	44.2	55.8	100.0
Salaried	11.1	88.9	100.0	25.0	75.0	100.0	36.4	63.6	100.0	20.2	79.8	100.0
WPA, NYA, property income, nonrelief benefits, and annuities	9.6	90.4	100.0	12.9	87.1	100.0	18.2	81.8	100.0	0.0	100.0	100.0
Number of earners: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
None to 2 earners	14.2	85.8	100.0	32.8	67.2	100.0	39.4	60.6	100.0	24.2	75.8	100.0
3 earners and over	36.4	63.6	100.0	18.2	81.8	100.0	50.0	50.0	100.0	40.6	59.4	100.0
1941 income as compared with 1940: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
No report	15.6	84.4	100.0	57.9	42.1	100.0	50.8	49.2	100.0	23.1	76.9	100.0
5 per cent or more higher in 1941	19.8	80.2	100.0	37.3	62.7	100.0	44.8	55.2	100.0	31.9	68.1	100.0
5 per cent higher to 5 per cent lower in 1941	7.7	92.3	100.0	26.0	74.0	100.0	27.5	72.5	100.0	21.6	78.4	100.0
5 per cent or more lower in 1941	18.0	82.0	100.0	9.0	91.0	100.0	22.2	77.8	100.0	37.5	62.5	100.0
Age of head of family: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
Under 40 years	26.2	73.8	100.0	47.4	52.6	100.0	45.2	54.8	100.0	30.6	69.4	100.0
40 to 59 years	13.0	87.0	100.0	25.4	74.6	100.0	41.3	58.7	100.0	28.1	71.9	100.0
60 years and over	7.8	92.2	100.0	7.6	92.4	100.0	22.5	77.5	100.0	28.6	71.4	100.0
Size of city: All units	15.0	85.0	100.0	32.4	67.6	100.0	40.5	59.5	100.0	28.9	71.1	100.0
500,000 and over	5.7	94.3	100.0	27.4	72.6	100.0	31.9	68.1	100.0	16.9	83.1	100.0
Under 500,000	18.1	81.9	100.0	34.5	65.5	100.0	45.3	54.7	100.0	35.1	64.9	100.0

[a] A negligible number of units of other races was omitted from this part of the table.

Source: R. Cox, *Installment Buying by City Consumers in 1941*, pp. 11, 12.

ers began to see more expensive durables within their reach, and no doubt it was a large factor in the rise of instalment buying to its all-time peak in 1941.

3. Instalment Buying and Family Size. As regards the relation between size of family and instalment buying, the 1941 data suggest a conclusion different from the one indicated by the data for 1935–1936. Table 27 shows a strong rather than a moderate tendency for the proportion of consumer units buying on instalments to rise as family size increases. The low use of instalment buying by single persons (who were omitted from the 1935–1936 survey) is noteworthy but not surprising. Single persons normally have less need for the instalment service than families. Furthermore, many stores consider them somewhat poorer risks.

To what extent the differences between the two surveys are due to the times, to changes in scope or sampling procedure, and to errors, it is difficult to say. In Table 28, where consumer units are classified into only two size groups, the larger makes more use of instalment buying at each income level than does the smaller. The general level of incomes had moved upward in the interval. It may well be, therefore, that the differences between the two sets of data are due chiefly to the moving of a large proportion of the country's consuming units from lower to higher levels of income. At the low levels, the influence of family size was found to be comparatively small in 1935–1936; at the high levels, this influence was found to be extremely important. Thus the differences can be reasonably attributed to changes in the circumstances of many consumers more than to changes in what consumers in given circumstances do. This, however, is little more than an informed guess.

4. Instalment Buying by Size of City. The evidence in Table 15 that residents of large cities make less use of instalment buying than residents of towns and small cities is supported in Table 27, the differences being very marked. Differences by size of city at higher income levels are more marked in Table 28 than in Table 15, but this apparent disagreement is probably due to a finer breakdown of the classes in Table 15.

5. Regional Variations in Instalment Buying. Regional differences are considerably less marked in the 1941 data, as given in Table 27, than in the data for 1935–1936, as given in Table 20. The regions are so worked out in the 1941 survey as to produce a distribution of large cities more uniform than in the 1935–1936 survey. In both sets of data the proportion of instalment sales rises as income rises in all regions, but 1941 shows (Table 28) a much heavier use of instalment buying at the

lower incomes in the South than elsewhere in the country. This difference is probably due to the inclusion of Negroes in the 1941 data.

6. Instalment Buying by Urban Negroes. Urban Negroes (who were omitted from the 1935–1936 figures) turn up in 1941 as surprisingly heavy users of instalment-sale credit—"surprisingly," because it has been supposed by some observers that severe restrictions are imposed by merchants upon Negroes in their credit buying. As Table 27 shows, the proportion of city Negroes buying on instalments in 1941 was substantially larger than that of city whites (38.2 per cent as against 29.1 per cent). The difference is evident in Table 28 at all income levels up to $3,000, the highest level reached by Negroes in the sample. At the $1,000-to-$2,000 income level, 62.1 per cent, and at the $2,000-to-$3,000 income level, 57.1 per cent of the Negro consuming units bought on instalments in 1941. Even these figures tend to understate the number of instalment buyers because they record only the number of families having net increases during the year. Negroes unquestionably were important instalment buyers in 1941. Since they are a small part of the country's population, however, and are clustered predominantly in the lower-income brackets, their importance to the instalment trade, when measured by dollar volume, is considerably smaller than when it is measured by number of transactions or number of buyers.

The statistics thus confirm once more the impression gained from interviews with merchants, made by the author in all parts of the country where the colored population is large. Negroes are frequent instalment buyers, and many stores welcome them as customers. Their eager use of this system no doubt reflects the intensity of the desire of an underprivileged group for goods that lie beyond its reach until it moves into income brackets where it can afford periodic payments. Proponents of the instalment system find here some support for their argument that the instalment plan permits the underprivileged to establish themselves quickly on a higher plane of living justified by an increase of income.

7. Instalment Buying by the Foreign Born. The 1941 data contradict a common assumption that instalment buying is more prevalent among the foreign born than among the native born. Taking the nativity of the husband as the basis of classification, Table 27 shows that 36.4 per cent of the native born (as contrasted with only 26.3 per cent of the foreign born) bought on instalments in 1941. Table 28 shows that the preponderance of native over foreign exists at all income levels, but is particularly large in the levels below $1,000. The proportionately lighter use of instalment buying by the foreign born probably stems

from a combination of low wages, irregular employment, and difficulty in gaining social acceptance in a new environment. For most immigrants instalment buying probably represents their first access to credit in substantial amounts, so that it is extremely important to them. The belief that the instalment system is used more heavily by the foreign than by the native born probably grows out of the fact that many conspicuous instalment houses have grown out of small establishments originally set up by and catering to foreign population in the large cities of the country. It apparently is mistaken, at least when applied to 1941.

8. Instalment Buying and the Home. Tables 27 and 28 add weight to the argument against overemphasizing the automobile and underemphasizing the equipping of the home in evaluating the economic and social significance of instalment buying. Several of the items in these tables indicate clearly that much instalment buying is done as an incident to the establishment and growth of families. The relatively light use of this buying method by "no-husband" units (which doubtless include many single individuals), by one- and two-person units, and by roomers (as distinct from housekeepers) underscore the warning. Further support comes from the clearly evident tendency of instalment buying (when measured by number of purchases, though not necessarily by dollar volume) to decrease in frequency as the age of the head of the family increases. The early years of married life, when the basic stock of durables is being accumulated for the family and the earnings of the principal breadwinner are well below their lifetime peak, are the ones in which instalment buying finds its most widespread use.

9. Instalment Buying and the Number of Earners per Family. The increase in the proportion of families buying on instalments as the number of earners per unit increases probably reflects, in part, the effects of increasing family size discussed in point 3 above. The more earners, the larger the income and the greater the ability of the family to afford large-unit durables and semidurables.

Rural Instalment Buying.—Two tables compiled by the Department of Agriculture provide some supplementary information for 1941 about farm and nonfarm families in rural areas. Like the Bureau of Labor Statistics study, this one covered a very small, stratified sample of families, and conclusions based upon it must be qualified accordingly. According to Table 29, 16.9 per cent of the farm families and 17.6 per cent of the rural nonfarm families bought new and used cars during 1941. These compare with 18.5 and 21.5 per cent for corresponding groups in 1935–1936.[1] The differences are probably too small to have

[1] See tables B-10 and B-12 for the 1935–1936 figures.

much significance. The proportion of cars bought on instalments, however, increased sharply. Of the automobiles bought by farm families, 29.7 per cent were bought on instalments (as compared with 13.5 per cent in 1935–1936). Of the automobiles bought by nonfarm families,

TABLE 29

PURCHASE: NUMBER OF NEW AND USED AUTOMOBILES BOUGHT IN 1941 BY RURAL FARM AND NONFARM FAMILIES AND SINGLE PERSONS, TERMS OF PURCHASE, AND PURCHASE PRICE OF AUTOMOBILES BOUGHT

Type of Community, and Annual Money Income Class (Dollars)	Automobile Bought in Period						
				Terms of Purchase		Purchase Price[a]	
	Families	New	Used	Cash	Instalment	Gross[b]	Net[c]
RURAL FARM	*No.*	*No.*	*No.*	*No.*	*No.*	*Dol.*	*Dol.*
All classes[d]	762	46	128	122	52	507	359
0–249	114	0	7	4	3	196	181
250–499	143	1	20	14	7	255	201
500–749	105	3	19	16	6	415	288
750–999	88	3	19	14	8	374	282
1,000–1,499	110	4	29	23	10	364	252
1,500–1,999	81	6	18	15	9	577	428
2,000–2,999	65	16	8	18	6	879	604
3,000–4,999	28	10	4	11	3	842	578
RURAL NONFARM							
All classes[e]	981	63	172	107	128	519	314
0–499	231	2	8	5	5	542	242
500–999	233	4	56	34	26	256	196
1,000–1,499	214	6	45	18	33	524	264
1,500–1,999	118	10	28	10	28	490	303
2,000–2,999	120	16	24	19	21	618	381
3,000–4,999	52	21	9	16	14	862	530

[a] Averages are based on the number of automobiles purchased.
[b] Gross contract price plus Federal excise tax and sales tax. Includes financing charges other than insurance.
[c] Gross price minus trade-in allowance.
[d] Includes a few families with negative incomes and with annual incomes of $5,000 and over, not shown separately.
[e] Includes a few families with annual incomes of $5,000 and over, not shown separately.
Source: U. S. Department of Agriculture, Miscellaneous Publication No. 520, *Rural Family Spending and Saving in Wartime*, p. 136.

54.5 per cent (as compared with 38.3 per cent in 1935–1936) were bought on instalments. It seems certain, even after allowance for differences due to sampling, that 1941 experienced a very sharp increase in the use of instalment credit for the purchase of automobiles by farm-

ers and nonfarm rural families in rural areas. The figures for 1941 are important in any case, even if the comparisons are weak.

In Table 30, data on certain aspects of the use of instalment buying by farm and nonfarm rural consumers in 1941 are given in somewhat more detail than in Table 29. The data are set up to show net increases and decreases in instalment debt under four categories—business equipment, automobiles, household furnishings and equipment, and other goods. Insofar as these figures can be compared with those in Tables B-9 and B-11 they show that the percentage of farm families buying business equipment on instalments was about the same as in 1935–1936, when measured by net changes in balances due. In 1935–1936, 10.9 per cent of the farm families had a net change in balances due on such purchases; in 1941, 11.1 per cent. For nonfarm families the comparable percentages were 0.9 per cent in 1935–1936, and 2.2 per cent in 1941. The number of families using instalment credit for the purchase of automobiles rose somewhat for farm families and substantially for nonfarm families. Of the farm families, 9.2 per cent had net changes in automobile instalment debt in 1941, as compared with 5.8 per cent in 1935–1936. Comparable percentages for the nonfarm families were 18.8 in 1941 and 7.2 in 1935–1936.

The number of families having a net change in their instalment obligations for household furnishings and equipment in 1941 was larger than for either business equipment or automobiles—12.8 per cent of the farm families and 27.7 per cent of the nonfarm families. Only 1.5 per cent of the farm families had net changes in their instalment balances for other goods, as compared with 5.8 per cent of the nonfarm families. The Department of Agriculture did not compute comparable figures for 1935–1936.

Table 30 shows a tendency for the percentage of farm families buying on instalments to be heaviest in the middle ranges of income (from $750 to $1,999 in this instance). However, the percentage of instalment buyers of business equipment and automobiles at the highest income levels is relatively large. For household furnishings and equipment, the heaviest percentages are concentrated in the middle-income ranges. The figures for the miscellaneous or "other" goods are too small for variations by income levels to have much significance.

Among nonfarm rural families the percentage buying business equipment and automobiles on instalments rises steadily as income rises. At levels of $3,000 to $4,000, 44.3 per cent of the families had net changes in their automobile instalment debt during the year. Instalment buying of household furnishings and equipment tends, as with the farm families, to be clustered more at the middle incomes. For "other" goods, units at the two extremes of income make appreciably

TABLE 30

PERCENTAGE OF RURAL FARM AND NONFARM FAMILIES AND SINGLE PERSONS HAVING A NET INCREASE OR A NET DECREASE IN BALANCE DUE ON INSTALMENT PURCHASES, 1941

Type of Community, Period, and Annual Money Income Class (Dollars)	Number of Families	Balances Due on Instalment Purchases Made During Period (Net Increase)				Payments on Instalment Purchases Made Prior to Period (Net Decrease)			
		Business Equipment[a]	Automobile[b]	Household Furnishings and Equipment	Other[c]	Business Equipment[a]	Automobile[b]	Household Furnishings and Equipment	Other[c]
RURAL FARM		PERCENTAGE OF FAMILIES							
All classes.......	762	6.8	5.4	7.3	0.8	4.3	3.8	5.5	0.7
0–249...........	114	3.5	2.6	4.4	0.0	0.9	0.0	0.9	0.0
250–499.........	143	4.2	3.5	5.6	0.0	0.7	2.1	4.2	1.4
500–749.........	105	2.9	5.7	5.7	0.0	2.9	2.9	3.8	1.9
750–999.........	88	11.4	5.7	12.5	1.1	5.7	4.5	8.0	0.0
1,000–1,499.....	110	12.7	7.3	10.9	1.8	10.0	7.3	6.4	0.9
1,500–1,999.....	81	6.2	7.4	9.9	1.2	6.2	8.6	7.4	0.0
2,000–2,999.....	65	7.7	6.2	6.2	3.1	6.2	3.1	13.8	0.0
3,000–4,999.....	28	14.3	10.7	3.6	0.0	7.1	3.6	7.1	0.0
RURAL NONFARM									
All classes.......	981	1.6	10.6	17.0	3.7	0.6	8.2	10.7	2.1
0–499...........	231	0.4	2.2	2.6	3.5	0.0	1.3	2.2	1.3
500–999.........	233	1.3	7.3	18.5	5.2	0.0	6.4	8.6	1.7
1,000–1,499......	214	1.9	14.5	22.0	4.2	1.4	10.3	17.3	2.8
1,500–1,999.....	118	1.7	15.3	20.3	1.7	0.0	10.2	19.5	1.7
2,000–2,999.....	120	1.7	16.7	32.5	4.2	2.5	14.2	14.2	2.5
3,000–4,999.....	52	7.7	23.1	15.4	0.0	0.0	21.2	5.8	3.8
RURAL FARM		AVERAGE AMOUNT PER FAMILY							
All classes.......	–	$23.43	$11.86	$ 4.43	$ 2.36	$ 9.52	$ 8.21	$ 4.18	$0.97
0–249...........	–	19.41	4.37	0.99	0.00	2.32	0.00	0.34	0.00
250–499.........	–	13.55	8.49	1.93	0.00	0.87	1.72	1.08	0.17
500–749.........	–	21.73	12.82	3.31	0.00	3.83	5.35	1.24	6.42
750–999.........	–	34.48	8.84	5.33	12.05	11.27	7.05	5.11	0.00
1,000–1,499.....	–	19.22	11.23	10.45	1.40	22.95	20.75	5.39	0.34
1,500–1,999.....	–	10.49	6.41	5.86	0.47	14.26	15.24	7.57	0.00
2,000–2,999......	–	12.58	22.70	4.48	8.44	9.69	9.70	14.62	0.00
3,000–4,999.....	–	143.15	63.98	1.00	0.00	12.29	3.63	9.01	0.00
RURAL NONFARM									
All classes.......	–	9.15	24.54	14.42	1.54	2.52	17.68	7.63	1.12
0–499...........	–	0.03	2.25	0.74	1.13	0.00	0.63	0.81	0.12
500–999.........	–	2.67	13.11	11.27	1.43	0.00	9.39	4.42	0.90
1,000–1,499......	–	22.48	26.97	18.27	2.42	5.62	16.47	11.61	1.50
1,500–1,999......	–	3.08	34.38	15.91	0.68	0.00	28.85	14.59	1.19
2,000–2,999......	–	4.38	43.70	38.96	2.69	10.60	31.43	14.90	1.46
3,000–4,999......	–	50.97	91.28	17.08	0.00	0.00	82.85	5.32	3.48

[a] Includes equipment for operating any business conducted by the family, including the family farm.
[b] Includes both business and family living share of automobile purchase expense.
[c] Includes items of family living such as clothing, books, and musical instruments.

Source: U. S. Department of Agriculture, Miscellaneous Publication No. 520, *Rural Family Spending and Saving in Wartime*, pp. 151–153.

less use of instalment buying than do the families that fall at intermediate levels of income.

The variation in average amounts due at the end of the year or repaid during the year, as shown by Table 30, is somewhat irregular among farm families. For most goods the sums rise to a peak at incomes between $750 and $1,499, then fall back and rise again at the higher income levels. Among nonfarm groups the figures for business equipment and for "other" goods are highly irregular, doubtless because the number of cases is small. For automobiles the indebtedness and repayment average rises steadily from the lowest to the highest income class. For household furniture and equipment the average amount rises to a peak at the $2,000 to $2,999 level, then falls sharply. These variations by income level cannot be explained, in the absence of information omitted by the Department of Agriculture. Presumably they are the composite effect of several factors, including particularly the need for credit to permit lump expenditures at given income levels, and the influence of income on the amount of the lump sum for which a consumer is willing to obligate himself.

Instalment Buying Through Cash Loans.—The statistics thus far presented in Chapters 5 and 6 show the distribution of instalment-sale debt. They do not cover purchases made with cash borrowed on instalment terms. We have seen in Chapter 2 that between 20 and 25 per cent of the cash instalment loans go to consumers for financing or refinancing purchases of durables. It is necessary for present purposes to see whether the distribution of these loans differs from that of instalment-sale credit enough to change very much the picture thus far built up.

The available evidence indicates that distribution of cash loan differs

TABLE 31

PER CENT OF TOTAL LOANS (NUMBER) AND AVERAGE LOAN MADE, BY SIZE OF INCOME, HOUSEHOLD FINANCE CORPORATION, 1937

Family Income (Annual Basis)	Per Cent of Total Loans (Number)	Average Loan Made
$ 1–$ 600	0.44	$ 96
601– 1,200	12.20	106
1,201– 1,800	33.75	147
1,801– 2,400	28.43	185
2,401– 3,000	12.59	204
Over 3,000	12.58	226

Source: Household Finance Corporation, *Household Finance Provides Loan Service for the Great Mass of People*, reprint of an institutional advertisement, November, 1938.

somewhat from that of sale credit. Data from one chain small-loan company presented in Table 31 show more than 62 per cent of its borrowers in 1937 concentrated in incomes between $1,201 and $2,400. In Table 18 we saw that only 45.8 per cent of the instalment buyers were in the $1,250 to $2,500 range, the most nearly comparable class. Cash loans are correspondingly less frequent at the extremes, and particularly at the low incomes, than instalment buying.

Taken at face value as typical of the business, these figures indicate that if indirect instalment buying through cash loans were included, instalment buying would be found somewhat more heavily in the middle range of incomes than the tables thus far analyzed show. There is no clear evidence that the figures are typical. Chapman, for example, finds the occupational distribution of borrowers from commercial banks quite different from that of borrowers from small-loan companies.[2] This may indicate a different income distribution too. Furthermore, there is no evidence that the income distribution of those who borrow cash to buy goods is the same as that of borrowers for other purposes. It may well be that cash borrowers fall into a number of classes (one of which is indirect instalment buyers) whose income distributions differ widely.

Until the subject is studied explicitly and in detail, it will thus be impossible to say whether the inclusion of direct financing of consumers done through instalment cash lenders would make much change in the basic statistics here analyzed. The indications from the available evidence are that it would not do so for the years prior to World War II. A somewhat heavier concentration in the middle incomes would be probable, but the change should be small, since the cash loan business in these years was considerably smaller than the instalment-sale business, and of this smaller amount not more than one fourth would go into the larger tables.

Isolating a Typical Instalment Buyer.—From details presented in this and the preceding chapter, one important fact emerges: There is no such thing as a typical instalment buyer in any sense that will facilitate thinking about the social significance of instalment buying and efforts to control it. In a prosperous peacetime year, from a quarter to a third of this country's consuming units buy something or other on instalments. These consumers, although they tend to cluster more heavily in the middle classes of income than does the population itself, are scattered throughout the full range of income. They live in all regions of the country and come from all national and racial stocks, all age groups, and all family sizes. One cannot properly think of "the" instalment

[2] J. M. Chapman, *Commercial Banks and Consumer Instalment Financing,* p. 59.

buyer as being, say, a wage earner who lacks the "white-collar" mentality necessary for effectively managing a charge account, or as a poor man who must have credit to enjoy the good things of life. Similarly, there is no easily discernible typical nonbuyer on instalments.

One can, of course, work out means or medians, and in that sense find representative consumers who do or do not buy on instalments. By this type of computation one presumably would hit upon the typical instalment buyer as being a married man with an income of, say, $1,500 or $2,000 or $2,500, at 1941 or 1942 price levels, living in a city, and earning his living as a wage earner or a clerical worker. Correspondingly, one could work out figures showing that an individual picked at random from among the consumers who buy on instalments during any given year is more likely to fall at an income level somewhere between grinding poverty and great comfort than at either extreme, and is more likely to be a city dweller than a farmer, or a wage earner than a salaried man. It is very difficult to say, however, how much the typical instalment buyer (or nonbuyer) would differ from the typical American, thus isolated.

Isolation of a consumer, different from consumers in general, who can be denominated "the typical instalment buyer," becomes even more difficult if we think, not of instalment buying during any one year, but of instalment buying over a term of years. Really significant measures of the distribution of instalment buying among the population must extend over a much longer period than one year. It is not to be expected that every instalment buyer will buy something on that basis during every year of his life. Some items he will buy once or twice in a lifetime, others at intervals of several years. Over a period of years he may buy the same goods on instalments one time, and on some other credit plan or for cash at another time. Whether he buys on instalments in a particular year depends in part upon whether his life cycle and the life span of his durable goods bring him into the market in that particular year. It is virtually certain that over a long period a very large proportion of the American people use the instalment system. Many of today's nonusers of the instalment plan are yesterday's or tomorrow's instalment buyers. Many of today's instalment buyers are yesterday's or tomorrow's nonbuyers.

The Typical Instalment Buyer.—The instalment buyer, then, is not so much a particular type of American as one of many millions of people who, among them, offer a cross section of Americans. Not all varieties of American are equally represented in the cross section. The percentage of farmers who have bought on instalments has been smaller in the past than that of city people, although the circumstances responsible for

this seem to be changing. Similarly, the very poor and the very rich probably have fewer instalment buyers among them than the rest, even when a count is made over a fairly long time. This is by no means certain, however, since the differences among classes shown in the statistics may be due to the purchase of fewer things on instalments at less frequent intervals rather than to a smaller percentage of families in any group being instalment buyers. Certainly the great mass of consumers who at one time or another buy on instalments come from all classes, include a large proportion in each class, and exhibit all the characteristics of each class. The differences among the classes are not so much whether they buy on instalments as how often they buy on instalments, what goods they buy, how much they buy, and for how much debt they obligate themselves when they do buy.

As an intellectual concept, "the instalment buyer" is thus as uncertain in meaning and as hazardous in use as "the consumer," or "the farmer," or any other attempt to sum up a great group of heterogeneous people in a single word. Further investigation (and particularly exploration into the buying behavior of consumers during their full life cycles) may reveal considerable areas over which it is possible to generalize accurately about instalment buyers as distinct from nonbuyers. Perhaps, if enough were known about them, consumers could be typed into those who habitually buy on instalments any durables they buy; those who pay cash always; those who buy some types of durables on time and others for cash; those who change about a good deal in their buying practices; those who never buy on any terms goods of the types sold on instalments; and so on. Perhaps this degree of knowledge would reveal differences between buyers and nonbuyers that have important causal relationships with instalment buying. Until such investigations have been made, it is wise to be careful in generalizing about the instalment buyer and his behavior.

PART II

THE ORGANIZATION AND MANAGEMENT OF INSTALMENT BUYING

CHAPTER 7

THE INSTALMENT CONTRACT

Types of Instalment Contract.—Consumers buy on instalments under three arrangements: (1) Formal written contracts which permit the seller to repossess the goods in the event of default. The overwhelming majority of instalment sales are made under such contracts. (2) Formal written contracts under which title passes to the buyer immediately and the seller retains the legal rights of a general creditor. This arrangement is much less common than the first. (3) Informal agreements, sometimes verbal, under which the seller retains no title. Arrangements of this sort appear usually when a customer already known to the merchant makes an additional relatively small purchase.

The formal agreements under which the seller may repossess also fall into three classes, according to the nature of the seller's repossession right: (1) The chattel mortgage. (2) The bailment lease. (3) The conditional sale. In many transactions, but probably not in most, the sellers strengthen the contract by requiring additional security, such as the promissory note, the judgment note, the wage assignment, an assignment of interest in other property, guarantees by persons other than the buyer, and warranties by the purchaser of the financial statements supplied in the credit application.

Although no one has assembled any extensive statistics on the subject, it seems unquestionable that at least half of this country's instalment purchases are made under conditional sales contracts. Most of the rest are made under chattel mortgages or do not involve retention of title. Bailment leases are used to any considerable extent in only a few states.[1] Peculiarities of the local laws exert a more potent influence than any other one factor in determining which basic type of contract the merchants of a given state use. Stores differ among themselves within a single state, however, and individual stores sometimes use different contracts for, say, wage earners and business executives, long-established residents and newcomers, durables and nondurables, goods of large unit value and those of small, new goods and used

[1] In Great Britain the bulk of the instalment business apparently is done under "hire-purchase" contracts that closely resemble this country's bailment leases.

goods, over-the-counter sales and sales by mail, or goods delivered to different states.

The procedures by which title eventually passes to the buyer vary widely, largely because of variations in statutes and judicial decisions. Some contracts transfer title automatically with the last payment, although, as we shall see, purchases that represent additions to outstanding contracts (commonly referred to as "adds," "add-ons," or "add-tos") may create problems. Some contracts make no formal provision for the passing of title from seller to buyer. Others pass the title only when some condition is met, such as a formal request by the purchaser and the payment of an additional small sum. In practice such formalities are rarely carried out. The author has found one contract which specifically provides that "no agreement of sale of said goods is implied," even though it carries a title in large type called a "conditional sales contract." It can hardly be doubted that in the light of all the circumstances the courts would construe all of these transactions as sales in disputes between buyers and sellers, although not necessarily in passing on the rights of third parties.

The Legal Nature of Title-Retaining Contracts.—Students of instalment buying generally emphasize the fact that title-retaining contracts permit the seller to act against the buyer by taking back the goods in the event of nonpayment rather than by merely suing for the money. Merchants with whom the writer has talked, although they may threaten to repossess, actually do so reluctantly. When they think of title retention as a right to be asserted vigorously, they generally have in mind protection against dishonest buyers and against third parties. For example, the contract gives them some protection against the customer who pawns or sells the goods before he has paid for them. If the buyer goes bankrupt, the seller has a preferred claim against the goods in question; in the absence of a title-retaining contract, he is merely a general creditor. If the buyer abandons the goods in a warehouse or rented dwelling, the seller, under a title-retaining contract, often has a preferred position as against claims for unpaid rent or storage charges, although the situation varies in individual states.

The three types of title-retaining contract differ among themselves in the precise legal nature of the rights reserved to the seller and the procedures required to exercise them.[2] Under the law of sales, a seller may retain posession of the goods sold until he has received payment. This power, the unpaid seller's lien, is extinguished by the buyer's proper tender of the outstanding purchase price. Since credit is an

[2] For a detailed discussion of the legal nature of the instalment-sale contract see L. Vold, *Handbook of the Law of Sales*, especially pp. 6, 225–228, and 267–314.

arrangement under which the buyer is permitted to take possession before payment, it is in effect a waiving of the seller's lien for an agreed period. The three common forms of instalment contract are in substance alternative ways of making this waiver. They differ as regards the nature and extent of the waiver and the ways in which the seller's powers to recover are exerted in the event of default.

The Chattel Mortgage.—Under the chattel mortgage, title to the goods passes to the buyer. The new owner then transfers back to the seller a limited security interest in the goods. In the event of nonpayment, the seller may foreclose.

The arrangement is sometimes cumbersome. Its utility for instalment sales of consumer durables is limited in some states by burdensome restrictions upon the seller's rights. These restrictions are intended to protect the buyer from oppression and to protect innocent third parties from the surprise of secret liens, but may have the effect of making the plan useful only on very large purchases because of the cost its procedures entail. In particular, some states prescribe foreclosure procedures that are too time-consuming or too costly to be tolerable for a business done in small units, as is instalment selling. Despite these difficulties, the chattel mortgage serves instalment sellers as the most useful legal instrument for the purpose in a number of states.

The Bailment Lease.—Instalment sellers use the bailment lease only where they find restrictions upon the other forms of instalment selling unduly hazardous or burdensome. In Pennsylvania the form is preferred by many sellers because the state has imposed restrictions upon conditional sales that seem unduly restrictive to them.

The bailment of goods has been described as a delivery of possession to another for some limited purpose. The owner, as bailor, transfers possession but not title to the bailee. In the instalment contract, the bailment becomes specifically a bailment for use, or, in less technical language, an arrangement under which goods are hired or leased. Ordinarily the contract includes a provision granting the bailee an option to buy the goods after payment of a specified number of instalments of specified size. In practice, as we have seen, little attention is paid to the formalities of transferring title, and a contract sometimes leaves matters in a kind of legal vacuum by providing neither for return of the goods nor for an option to buy.

The layman will find an element of unreality in the whole business of the bailment lease. Whatever the legal niceties may be, both consumer and retailer know that the consumer is buying the goods and that he thinks of himself as owning them from the outset. Courts sometimes feel the same way. They may refuse to differentiate bail-

ment leases from conditional sales and hold ostensible leases to be sales in fact.

The Conditional Sale.—Conditional sales vary greatly in detail, but have three common elements: they are contracts to sell the goods when all instalments have been paid; the buyer meanwhile has possession and use; and the seller reserves the power to retake the goods in the event of default by the purchaser. Authorities have found it difficult to define precisely the legal effects of these contracts. Vold finds a tendency, however, for courts and statutes to accept the common sense of the situation by recognizing that a conditional sale is intended to set up a divided ownership. "Expressed loosely and familiarly, a conditional seller may put it in conversation that the goods belong technically to the seller but practically to the buyer." [3]

In more technical terms, the buyer receives beneficial ownership of the goods. He obtains the right of peaceful possession and beneficial use and may transfer, encumber, and insure his interest. He also bears the burdens incident to ownership, such as the risk of loss, the obligation to pay taxes, and the possibility of having his interest seized to satisfy creditors. He may become the absolute owner with or without subsequent assent by the seller by performing the conditions of the contract.

The seller retains legal title but is limited to an interest in the goods held as security unless the buyer defaults, in which event his powers are greatly enlarged and he can retake the goods. The courts do not agree as to what the legal effects of the seller's exercising his rights are. They disagree particularly as regards the seller's right to sue for a deficiency, and the buyer's right to any excess in the value of the goods retaken as compared with the amount still owed.

Innocent third parties can acquire from the sellers or buyers only such interest as they themselves have in the goods, except in jurisdictions which by law hold these contracts to be effective against third parties only when they have been filed or recorded with an appropriate official. In practice, where filing is required for protection against third parties, most stores do so only if the account is a large one or a doubtful one. For other accounts they find the procedure too expensive or subject to objections by their customers.

The Business Significance of Title Retention.—Authorities disagree as to how much weight should be given to the title-retaining provisions of contracts as the real and distinctive security in instalment selling. Obviously any form of credit used in large amounts and repeatedly by

[3] Vold, *op. cit.*, p. 269.

a large proportion of the people must rest upon something more substantial than a legal power to enforce payment. The real security behind instalment buying is its performance of a service wanted by responsible consumers in a stable society. Repossession cannot take the place of the stability that permits people to estimate reasonably well what their purchasing power is likely to be during the period of repayment. It will not cure depressions that make people unable to pay their obligations, or take the place of a willingness by buyer and seller each to make good on his part of the bargain. Despite the belief of some critics to the contrary and the existence of individual exceptions, it does not make credit selection unnecessary or permit the seller to load many of his customers down with debts they cannot reasonably be expected to pay.

One can hardly doubt, however, that the legal sanctions behind debt (including the right of repossession in instalment buying) permit sellers to extend their operations to somewhat more distant margins of economic stability and moral responsibility. Presumably they also make investors more willing to finance this business because they give some assurance that the debtor who falls into difficulties cannot casually find an easy way out by letting his creditors pocket his loss. The number of debtors who pay willingly enough as long as the fact of coercion is there, but who would not do so in its absence (especially to distant creditors), may or may not be quite large. Furthermore, one must not forget in good times that the chief significance of title retention for bad times may lie in its protection of the seller against third parties. Many merchants remember the last great depression as a time when business enterprises fought a prolonged, deadly battle for sheer survival, and title retention often became a device by means of which the merchant held off other claimants to the assets of individuals who had got into difficulty.

An important factor influencing the judgment of seller or financing agency concerning the function of title retention is the nature of the commodity. At least four different points of view may be distinguished: [4]

First, where the creditor looks to the value of the goods in resale to protect him from serious loss. This attitude works out best for goods of relatively large unit value that can be found, repossessed without too much expense, and readily sold in a well-organized secondhand market. It also is suited best to situations typified by the finance company, where relations between buyer and creditor are impersonal and the lender's

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[4] This means four legitimate points of view. See Chapter 19 below for a description of the "repossession racket" under which unethical merchants or lenders make money by trapping customers into defaults with subsequent repossessions.

standing in his community is not seriously injured by repossession. These conditions are best met by the automobile business, and it is in the financing of automobile sales that this simple and direct importance is most commonly attached to the right of repossession.[5]

Second, where the seller ordinarily strives to avoid repossessing the goods but finds the threat useful in bringing pressure to bear upon customers who are laggard in their payments. This point of view characterizes the furniture business. Furniture can be repossessed against the will of the debtor only with difficulty, at some expense, and with the danger of incurring considerable ill will in the community. Furthermore, once repossessed it can be sold only as secondhand or reconditioned merchandise, usually at a severe reduction from the original price. In the minds of many consumers, however, furniture is too valuable to abandon casually, and even a voluntary "give-up" may seriously injure a family's social standing in its community. The threat of repossession is often effective under these circumstances, even though the merchant has no real intention to repossess.

Third, where the buyer can conceal the goods easily or carries them on his person and cannot be forced to give them up unwillingly except by physical force. Jewelry is the most obvious example. Here the title retention has little or no utility as a basis for pressure in collecting. Its principal utility lies in its providing a basis on which to bring action in court, if necessary, and a protection against fraudulent conversion.

Fourth, where the repossession right is almost impossible to enforce in practice, and the goods have little or no value if they are repossessed. Clothing is the most important example of this kind of goods. For such goods title retention has little meaning or significance. Sellers are more likely to emphasize additional security in their contracts and to put emphasis upon noncontractual aspects of instalment buying, such as a careful screening out of credit risks, charging a relatively large margin to cover their losses, or working out methods of persistent and aggressive collection.

Additional Security Under Title-Retaining Contracts.—When the merchant wants security in addition to that provided by title retention, he gets it by inserting special clauses into the contract or by having the customer sign documents in addition to the main contract. States vary widely in what they permit sellers to do about additional security. Correspondingly, sellers in any state differ in the extent to which they take advantage of what is permitted. Some never take additional security. Others take it but never use it. Still others use it in bringing pressure

[5] The importance attached by banks to automobiles as collateral, and the elaborate facilities available to them in determining the value of used cars, are discussed in American Bankers Association, *Bank Manual on Automobile Financing Dealer Plan*, pp. 10, 11.

when collecting, but never go to court. A few go to court regularly to enforce their rights. The subject is important because provisions of contracts setting up additional security lend themselves to abuse or even outright fraud by a small minority of sellers, and thus provide a basis of fact for some severe criticisms of the instalment system. This is true particularly when, as sometimes happens, the clauses providing additional security are buried in inconspicuous, abstrusely worded sections of long contracts.

One very widely used form of additional security is a legally separable promissory note that the buyer signs at the time he signs the contract. Its principal advantage to the seller is that it gives him an additional or alternative step to take when collecting from a seriously delinquent buyer. In some circumstances one can collect under a note more easily than under a mortgage or a conditional sale. Critics of the promissory note contend, however, that it may lend itself to abuse by depriving the purchaser of certain defenses he has under a conditional sale contract. An example is showing that the seller violated his own warranties, as when the merchandise is damaged or not fit for use or not in conformity with the sample.

Where they can do so lawfully, sellers sometimes strengthen the promissory note into the judgment note (which in some jurisdictions is called a cognovit note). Under such a note the buyer virtually surrenders all his defenses in advance of any suit brought against him. He agrees, in effect, that if the seller sues him for payment, any attorney of record may appear for him in the appropriate court and confess judgment. The buyer may also waive all right to notification concerning the steps taken. Strictly and literally enforced, such notes can lead to serious abuses. In practice, many judges soften them by interpretation, and in some states statutes forbid their use.

Wage assignments give the seller the right to call upon the buyer's employer to pay directly to him, rather than to the buyer, all or part of any wages or other funds payable to him for services rendered. Many states prohibit or severely restrict wage assignments. Others impose no important restrictions. In a few backward jurisdictions a seller can hold up the buyer's entire wages merely by notifying the employer and without going to court for an order. Although simple in form, the wage assignment can thus be extremely harsh in result.

Where wage assignments are lawful and effective from the seller's point of view, some merchants take them, although few act in anything more than a rare case of what they believe to be extreme bad faith. As a collection device, even when used merely to threaten, the wage assignment is often extremely potent. This is true particularly when the buyer's employer follows a policy of discharging any worker against

whom a wage execution is taken. The wage assignment also sometimes deprives the buyer of valid defenses against the seller. It therefore lends itself not only to abusive collections, but also to the grosser forms of fraud, where buyers are tricked into signing contracts and assignments unwittingly. It is thus subject to severe attack by both the enemies and the friends of instalment buying.

Instalment buyers sometimes give additional security in the form of a lien against property other than that being bought—say, a savings account, an automobile, or household goods. The device is used relatively seldom, however, in instalment buying. It is much more common in cash instalment lending, where no goods are directly involved in a purchase and sale transaction.

Both instalment sellers and cash lenders use still another form of additional security—the guarantee of payment by third parties. Such guarantees may cover single transactions or a series of transactions during a specified period or even into the indefinite future. They find their proper use where the guarantor is going to be one of the users of the goods, where a parent or guardian guarantees payment by a minor, where members of the family guarantee the notes of newlyweds setting up housekeeping, or where the customer is merely a nominee of the guarantor, as when a husband guarantees his wife's account. Although often intended merely to set up another way of bringing pressure upon a delinquent debtor, they have caused serious losses to individuals and lend themselves to abuse both by buyer and seller.

For protection against personal bankruptcies, some merchants use a final type of additional security. They require customers to fill out financial statements and to sign warranties of the information given. Should the customer file a plea in bankruptcy, they can offer any discrepancy between the credit application and the facts of the customer's financial position disclosed in the proceedings as evidence that the obligation was incurred fraudulently, and so oppose the debtor's discharge from bankruptcy. The legal force of these warranties is somewhat uncertain in practice, but they provide another instrument by which pressure can be increased in collecting.

The Diversity in Details of Instalment Contracts.—Inspection of any group of instalment contracts assembled at random will reveal an astonishing diversity of detail.[6] Individual contracts will have as few as two or three clauses and as many as forty or fifty, but no one provision will appear in all contracts, not even a clause that, by one means or another, retains title in the vendor until payment is completed. Except-

[6] No attempt will be made here to describe all the provisions that can appear in an instalment contract. Anyone interested can best inform himself by assembling a group of contracts and inspecting them.

ing that provision, which probably can be found in more than 90 per cent of the contracts, it is doubtful whether one can list more than five or six that are used in as many as half the contracts.

The second most common clause found by the author in a group of 120 title-retaining contracts from twenty-one states was the so-called acceleration clause. This provides that a default in one payment makes all payments under the contract immediately due and payable. Attorneys strongly favor this clause because it obviates the need to sue repeatedly for successive instalments under a defaulted contract. Approximately two thirds of the contracts prohibit movement of the goods from the buyer's residence, or from the state or county of sale, without notification of the seller; restrict the buyer's right to enter a defense in court proceedings that the goods do not conform to oral as distinct from written representations; and require the buyer to take good care of the merchandise. More than half of the contracts permit the seller to claim as liquidated damages in the event of default all money paid in prior to the default. Attorneys recommend this clause to protect the merchant against unwarranted returns of goods by customers.

Although no other provision appears in as many as half of the contracts, the frequency of some much discussed clauses is of some interest. Between 40 and 49 per cent of the contracts specify an "interest" or carrying charge for the credit service, provide for the merging or consolidation of "adds" into the original contract,[7] and authorize the seller to enter the premises on which the goods may be for purposes of repossession. Between 20 and 39 per cent of the contracts give the seller a choice among several legal remedies in the event of default, provide for sale after repossession, permit the seller to sue for a deficiency judgment if the proceeds of sale do not cover the debt, permit the seller to charge interest on a defaulted debt, waive any right of the buyer to damages for forcible entry and seizure of goods, authorize the seller to enter a confession of judgment for the buyer and protect the buyer's equity in the goods. This last is the only clause so far mentioned that aids the buyer rather than the seller. Fewer than 20 per cent of the contracts include a wage assignment in the body of the document [8] or permit the seller to act for his own protection if for any reason he feels that the contract is insecure even when the payments are up to date.

Although some clauses said by some lawyers to be essential protections of the seller's rights appear in surprisingly few of these contracts, most of these contracts agree among themselves in being one-sided statements of the seller's rights and privileges. To what extent their

[7] "Consolidation" means that the balance due on an outstanding account is combined with that due on a new purchase, and that new terms are arranged to cover the combined purchase.

[8] With some of these contracts there may be a wage assignment in a separate document.

legal incidence is changed from their surface appearance by the general legal framework in which they must operate, and by the practical consequences of the fact that the buyer actually has possession of the goods, only an exhaustive analysis could reveal. One cannot deny, however, that much of the instalment business invites accusations of unfairness to consumers by the forms of its contracts. The feeling that this is true lies behind the insistence in recent years by some influential sellers upon the need to work out simplified contracts designed to preserve the essential rights of both parties and to be fair in appearance as well as in application.

Why Contracts Differ So Much.—To the layman, at least, no universally accepted principles governing merchants in their choice of specific contractual provisions suggest themselves from a survey of the record. The really remarkable thing is how casually most merchants have picked up their contracts from friends and other merchants, in stores selling legal forms, from some lawyer for a routine fee, or from a trade association that sells pads of forms to its members. Once he has adopted a form, a merchant may continue to use it for no better reason than that he never thinks about it, or has a batch of forms on hand and sees no reason to spend money for a new one. If he runs into difficulties, he may have an attorney add or vary a clause to correct matters. Alternatively, if he has no difficulties, he may decide that the contract has little significance and simplify it drastically to make a good impression on his customers.

One probable reason for diversity in contracts lies in differing weights attached to the advice of lawyers and of merchandising men. A lawyer by training and temperament ordinarily prefers an elaborate contract. He wants to take care of the most remote contingencies. As a special pleader he finds it natural to widen the rights and powers of the seller and to narrow those of the buyer as much as possible. In contrast, the merchandising man wants to eliminate every possible obstacle to sales. A simple contract suits him best.

Even when contracts are revised to meet specific legal developments, individual merchants come up with different answers. One merchant who loses a case in court may ask his lawyer to close the newly discovered loophole in his contract. Another in the same predicament may blame an unfriendly judge, and reason that he must manage his affairs so as to stay out of court.

Even when contracts are uniform for many merchants in a given community, state, or trade, the situation may be accidental rather than planned. One may find, of course, that a trade association is responsible, but he may discover that several stores use an essentially similar

contract because they went independently to the same attorney, or because their owners have all come from the staff of some older merchant whose contract they copied when they struck out for themselves. Banks and finance companies may exert an influence toward uniformity by setting up rules as to the kinds of paper they will discount. Extremely exceptional is the situation in Michigan, where many merchants use verbatim a contract which was held legally binding on third parties by the State Supreme Court.[9] Also exceptional is the situation in New York, where many merchants have adopted standard forms recommended by the New York Conference on Instalment Selling.[10]

The Diversity in Physical Form of Contracts.—As diversified as the contract provisions are the physical forms in which they are cast. Most formidable is an old-fashioned but still widely used document. Printed in very small type, it sometimes spreads over two or three pages, with no headings and no emphasis on any particular paragraph. In such a contract an unscrupulous seller can bury the most extreme form of wage assignment; a judgment note, including the right to levy on real estate; or clauses empowering him to break doors and use such other force as may be necessary in repossessing goods, to insert dates and fill blanks in the contract either before or after execution, and to make erasures in parts of the contract without affecting the remainder. If the contract covers a sale of used goods, it may specifically exempt the seller from any guarantee as to their condition. Even a long contract may have most of its provisions printed on the back of the sales slip or credit application, perhaps on a sheet entirely different from the one that is signed by the buyer.

At the opposite extreme one finds a very simple form printed on a small card. It gives the name and address of the buyer, lists the items purchased and their prices, states the terms as so much down and so much per week or month, and concludes with some such paragraph as the following:

> I hereby purchase from the XYZ Company the merchandise listed above. I agree to pay the total sums named above in the manner stated at the office of the XYZ Company. Title to goods is retained by the XYZ Company until payment of the full purchase price.

The contract may be a ledger card signed by the customer on the first purchase. On additional purchases the customer signs slips authorizing insertion on the original card. Alternatively, the contract may not specify the purchase, but merely bind the customer to pay, say, a dollar

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9 206 Michigan, 555.
10 See Chapter 8 below.

a week on balances of $40 or less and proportionate amounts on larger balances. Specific purchases are made by signing sales slips.

Most instalment contracts fall somewhere between these extremes. Except where specific laws prescribe the form and provisions of the contract, the present writer has discovered no tendency for contracts to cluster at any particular point along the range. In the same shopping center merchants in direct competition with each other use completely different forms. Occasionally a customer objects to a contract. Usually he does not read it. Sometimes he signs in blank.[11]

One may go further. Very few employees of instalment retailers read the contract they use. One can, without difficulty, even find merchants who have themselves not read their contracts. Very small merchants trust someone else's judgment. Very large ones are too far away from the day-to-day work on their floors to pay much attention to such details.

As to typography, format, and arrangement, the varieties of contract have been limited in number only by the ingenuity of the designers. The contract is not always a contract alone. It may also be collateral for a loan, the store's basic sales record, the ledger form upon which payments, new purchases, and notations by the credit office are entered, shipping instructions to the warehouse, a receipt for the goods to be signed by the customer, a card to be inspected from time to time by collection clerks in their periodic checks upon who has and who has not paid up, and a form to be used in inventory control and the maintenance of stock records. To serve all these and possibly several other purposes, it is sometimes prepared in as many as six copies, each destined for a particular use. There is virtually no limit to the number and variety of notations for which space can be provided, and these present different requirements according to whether the firm posts by hand or by machine.

Questionable Provisions in Instalment Contracts.—Much of the criticism of instalment buying centers not upon the general form and character of the contract but upon its specific provisions. One of these is the handling of "add-ons." Problems arise when a customer makes a new purchase before completing payment for an old one and the two transactions are consolidated, as is usually done. If the payments on a consolidated contract are divided between the two purchases in proportion to the balances due at the time the new purchase is made, the buyer will have a clear title to none of the goods until he has paid for all of

11 The number of contracts normally signed in blank is astonishingly high in the smaller stores. Furthermore, except when required to do so by law, the merchant himself never fills in most of his blank contracts. The simple truth is that very often neither seller nor buyer finds the benefit of filling out an elaborate form worth the effort required. It has even been difficult during the wartime control of consumer credit to persuade customers to wait for and take the full statement of the transaction required by Federal regulations.

them. In the event of default, the seller can theoretically and sometimes actually repossess all the goods, not merely those acquired on the last purchase. Very few merchants do so in practice; they generally work out some sort of division of the goods.

The fact that a power to abuse exists, however, leads some critics to demand that a fair settlement be made contractual rather than dependent upon a sense of fair play in the seller. More specifically, they want payments under a consolidated account divided in such proportions as to pay out the older purchase first and so clear title to the goods fairly promptly. Furthermore, they insist that the "add-on" contract be put in a form such that the buyer understands clearly what he is doing. The "adds" are often much smaller than the original purchase, and they may be soft goods rather than durables. Consolidation may thus have the effect of extending the protection the merchant receives from the right of repossession over the sale of goods that have no appreciable repossession value.

Critics also object to clauses that give the seller security in addition to retention of title in the goods themselves. In particular they condemn wage assignments. Much of the criticism rejects wage assignments in principle. The critics hold that for reasons of social policy a gullible or improvident individual's power to sign away his future wages must be restricted. When the wage assignment is buried in an obscure paragraph which the ordinary buyer is not likely to read and so lends itself to fraud, the pressure of criticism mounts sharply.[12]

Some critics also object to the acceleration clause. As we have seen, this clause reduces the seller's difficulties and costs in collecting defaulted contracts. It permits him to act once and for all rather than piecemeal on each payment. It can be abused, however, as where a seller takes advantage of a minor violation of the contract to force immediate payment in full, or some other settlement that results in hardship for the buyer.

Critics of instalment buying object to other provisions that permit abusive collection, especially when they are obscurely worded and virtually concealed in mountains of verbiage. Such provisions authorize the seller to seize the goods wherever he finds them without warning; to charge fees for fictitious attorney's services or excessive fees for the privilege of reclaiming goods that have been repossessed; to sell repossessed goods under circumstances that preclude a fair market price; and to obtain deficiency judgments that open the way for seizure of other assets and garnishment of wages. Clauses that waive legal rights or defenses of the buyer are widely condemned. These include confessed

[12] It should be noted that wage assignments are more likely to be abused by so-called "loan sharks" in cash loans where there are no goods to repossess than by instalment sellers.

judgments, waivers of jury trial when required of only one party, and waivers of the right to claim that the seller has not lived up to his warranties concerning the goods.

Sometimes the critics object to the omission of desirable provisions rather than the presence of undesirable ones. We have seen that instalment contracts tend to be seller's documents. Critics maintain that they do not state clearly and fairly the rights and the obligations of both parties. An especially important criticism here concerns the absence from most contracts of provisions under which buyers can redeem repossessed goods within a reasonable period. It is also argued that the relations of the buyer to any finance company or bank that buys the contract are not spelled out. The buyer may suddenly find himself dealing as a debtor with someone quite different from the dealer he knows, under circumstances that make his rights and obligations uncertain.

The Softening of Instalment Contracts by Trade Custom.—Many of the most bitter criticisms of instalment buying grow out of reading the contracts as literal descriptions of business practices. This is unfortunate because it distorts, although it does not completely falsify, the facts. The ordinary instalment buying procedure is considerably milder in behavior than in appearance. Not only do most of the contingencies provided for in the contract fail to arise for the great majority of consumers, but also merchants almost never enforce the contracts literally when they do arise. Furthermore, those who do resort to the more drastic procedures find most public officials reluctant to act harshly against instalment buyers.

On the other hand one cannot deny that careless buyers sometimes forget the fact that instalment contracts include very strong sanctions. Surprised to discover that they have made a binding and enforceable agreement, they may feel aggrieved because the seller expects them to make good even at some inconvenience to themselves. Furthermore, some of the worst abuses in instalment buying spring from the deliberate deception practiced by a few merchants who capitalize on the trade's generally mild practices to "lock the customer into the goods," then take advantage of every word in the contract to squeeze as large a profit as possible out of it.

Unfortunately, almost no data exist upon which to compute quantitative measures of the extent to which informal negotiations and local customs modify formal agreements. Reliance must be made, therefore, upon opinion and impression rather than statistics. These show that one must look well beyond the appearance if he is to find the true substance of instalment buying.

As an example of the difference between form and substance, the

practice already referred to of consumers' signing contracts in blank may again be cited. Even the wartime regulations of the Federal Government could not prevail fully against the fact repeatedly demonstrated by experience that most consumers, once they have decided what they want to buy and have arranged terms, refuse to stand around and wait while elaborate papers are made out. They trust to the honesty and reasonableness of the merchant and let it go at that.

Even when the contract is filled out and read, its specific provisions do not eliminate the reliance of the average consumer upon simple fair dealing. The working relationship differs from the documentary forms in this regard. Consumers simply take it for granted that the retailers with whom they trade will live up to whatever standards are customary in the trade and in the community. Their enforcing powers are not courts of law, but lie in the fact that the ordinary retailer's livelihood depends upon his maintaining himself as a continuing enterprise with a reputation for fair dealing. Even in a large city there is room for only a few fly-by-night organizations, who squeeze what they can out of a quick promotion and move on, or live off the transients passing by, or confine themselves to "playing the suckers." Many of these will find themselves in a catch-as-catch-can struggle with equally unscrupulous customers and get burnt about as often as they burn.

For the great bulk of merchants, survival depends upon their playing reasonably fair with their customers. Standards of fairness may vary by community and by class of consumer. Whatever the standards are in the spot the retailer picks for himself, he will have to conform to them if he expects to stay in business very long.

The signing of contracts in blank is thus not as hazardous for consumers as it may seem superficially. What governs the transaction is not formal words on a piece of paper but powerful customs and social pressures. Even when all the forms are filled out and signed, as when the retailer sells his paper, the terms are rarely enforced rigidly. The buyer often counts on this fact in his buying. An excellent illustration is the fact that instalment sellers expect their customers to fall somewhat behind schedule in their payments. Merchants rarely compute figures to show the difference between the terms they write and the terms they collect. Estimates given the writer by merchants for their stores were that actual repayment periods will average anywhere from 10 to 60 per cent longer than those set in the contracts. A rule of thumb frequently heard in the instalment trade is that the average customer will miss about one out of every four payments due. Anyone who pays out that closely to the agreement is considered "good pay."

This giving of ground by permitting customers as a class to pay out more slowly than the contract terms call for is merely a conspicuous

example of a general policy.[13] Most sellers fall back upon severe sanctions and the letter of contract only when they think they are being victimized by an unscrupulous buyer. For buyers who really are in trouble, most of the sellers will go a very long way in making adjustments, granting extensions, and working out feasible settlements. Few will try to force payment by resort to severe sanctions. The nearest approach to routine use of the contract as a literal guide to behavior probably appears when credit is reduced to a strictly impersonal routine by the introduction of a distant financing agency. Here lies the foundation of fear upon which some merchants capitalize by advertising, "We do not use finance companies."

The Softening of Instalment Contracts by the Courts.—Courts also commonly modify the meaning of instalment contracts by their rulings. In some jurisdictions, it is true, marshals, justices, squires, and the like virtually convert their offices into adjuncts of the collection departments of creditors. They frighten delinquent debtors with threats of various kinds, and sometimes in effect make the contract more severe rather than less.

Such officials are quite exceptional. Most courts refuse to serve as routine collection agencies for merchants, and they develop strong suspicions of any seller who comes to court very often. This attitude comes out in many ways other than outright refusal of the claim. The judge may scold the seller for questionable practices and contracts, or suggest forcefully that the matter be settled out of court. He sometimes warns the creditor not to expect favorable treatment from the court in the future unless he changes his contract or his practices. Once in a while the court gives the creditor the words of the decision, but leaves the substance with the debtor by instructing him to pay in instalments so small as to amount to cancellation of the debt.

The attitudes of the merchants reflect all this. Asked why they stay away from the courts as much as possible, most merchants say, first, that a properly managed store does not need to sue very often. They sometimes add that the money collected is more than lost in good will if the community comes to think of them as going to court too often. Pressed further, they are likely to tell of some experience that has led them to believe, "The courts don't like the instalment business." Working things out in the store seems the best policy under such circumstances.

The Need for Changes in Instalment Contracts.—From what has been said, a significant conclusion emerges. Instalment buyers have

[13] Collection practices of instalment sellers are discussed in more detail in Chapter 16.

valid grounds for minimizing the importance of the formal contract they sign, possibly in blank. To them the arrangement is not what it says in the paper but their experience of how business is done in a community and by the specific merchant in question. By and large, this belief must work out reasonably well for most buyers, or the system would long since have collapsed under the weight of its own reputation.

This confidence displayed by instalment buyers as a class speaks well for merchants as a class. Nevertheless the situation obviously is not wholly desirable. Since outward appearances are influential, the trade gives itself a reputation among noninstalment buyers worse than it deserves. Furthermore, it undoubtedly gets some buyers into trouble because they can too easily assume a debt without fully realizing what they have done. Even a farsighted and considerate merchant looks different as a collector from what he did as a salesman. Still more important, perhaps, is the fact that handling instalment contracts this way opens up opportunities for abuse by sellers who trap a few unwary individuals into signing contracts and then violate all accepted customs in their enforcement procedures. These various possibilities lie back of the arguments of some students, to which we shall come later, that for its own sake the instalment business should bring its contracts into line with its practices and so simplify its documents that customers can be induced to sign (if not to read) filled in contracts.

Although it probably is fair to say that most instalment buyers have given little or no thought to their contracts, those who have thought about the problem do not always agree that changes are desirable. They argue that the seriously abusive clauses are quite infrequent in practice; that the written contract is not often enforced rigorously; that severe powers of enforcement are invoked only in extreme cases of unethical behavior by consumers, and even then only as a last resort, or by only a few sellers who are exceptional rather than characteristic of the trade; and that instalment contracts are no more confusing and one-sided than many others used in business, such as insurance policies, real estate leases, bank loans, and railroad bills of lading.

Such arguments do not stand up well under analysis. Even though legitimate merchants use their rights sparingly, the presence of these rights opens the door for unscrupulous dealing by a few sellers. It is not wholly satisfactory for what happens in trade to be so largely dependent upon one party's willingness to be moderate and reasonable. Finally, one's own sins are not excused because others sin too.

The fact remains that the instalment business as a whole would be well advised to reword its contracts, as some merchants already have done, so as to make them fair both to the buyer and to the seller. One of the objectives of some trade associations, and notably of the Retail

Credit Institute of America, is to foster this sort of self-reform. Contract provisions should be removed if they add no real strength from the point of view of sellers, and are very rarely used but tend to give the business a bad name. A fair contract will not do away with strong powers of collection, since even the reasonable seller needs protection against dishonest buyers. It will, however, avoid abusive clauses, while holding the buyer to reasonable standards. It will not be so short as to preclude a fair statement of the buyer's rights and obligations, or so long that no one will read it. In form it presumably will be easily legible, and it will make every effort to give both buyer and seller a clear understanding of the precise agreement without too much labor.

CHAPTER 8

THE REGULATION OF INSTALMENT BUYING

Kinds of Regulation.—Some critics maintain that the instalment business needs much more statutory regulation than it has thus far received. They say that the legal structure of instalment buying has developed within the general law of sales by piecemeal legislation, judicial interpretation, and trade custom; that softened in practice though it may be, it is still governed by seller's law and lends itself to abuse of the unwary or ignorant buyer; that positive action is required to protect the buyer from getting into trouble and to put socially tolerable limits upon the advantage a creditor can take of any difficulties into which he falls. Furthermore, it is argued, instalment buying as an institution exerts a great influence upon economic stability. Such a matter cannot safely be left to controls that emerge as by-products of the efforts of individuals to fend for themselves.

We shall have occasion later on to see how far this line of reasoning is valid, and to consider the sorts of proposals for reform to which it leads. For the present it is enough to take a quick look at controls already imposed in response to this sort of pressure. It will be convenient at the same time to look at some other regulations applied over the years that have played an influential part in determining the structure of instalment buying as it is today. These various controls fall into six groups: (1) a large body of law governing specific rights and practices of buyers and sellers; (2) the so-called Uniform Conditional Sales Act; (3) other more or less comprehensive state laws for the specific regulation of instalment buying; (4) Federal regulation of instalment buying in peace and war; (5) British and Canadian controls; (6) controls instituted by trade and commercial associations.

State Regulation of Collections.—A detailed exploration of the ways in which state statutes modify, control, and direct instalment buying would go far beyond the scope of the present study. It would entail an appraisal of indirect effects, as when restrictions or taxes imposed upon conditional sales lead merchants to use chattel mortgages or bailment leases. For present purposes some specific examples will suffice to show the nature of the controls imposed.

For instance, the statutes of the various states differ sharply as to what they permit and prohibit in the use of wage garnishments. Several states prohibit the garnishing of wages entirely. At the other extreme, one or two states impose no exemptions or restrictions of any kind. The other states fall somewhere between. They range all the way from making garnishment virtually useless as a practical matter, even though it is not formally prohibited, to letting it be used with only nominal restrictions.

Wage assignments also differ widely in legal status from state to state. In many states wage assignments do not bind employers at all. Others impose no restriction upon their use. Still others permit wage assignments, but only under certain conditions. Thus the assignment may be limited to some maximum percentage of a worker's income, and be valid only if approved in advance by the employer, or signed by the worker's wife, or made on documents of a specified form. It may be enforceable only through specified court procedures.[1]

State laws and judicial interpretations of those laws also restrict various kinds of abusive collection methods. A considerable number of decisions make it plain that willful and malicious causing of mental pain and anguish in collecting a debt, or undue harassing of the debtor in order to force him to pay, are subject to action by the person injured. The courts, in making such rulings, impose upon themselves a difficult problem of determining when a debtor has been injured seriously enough to warrant the recovery of damages. Although many of the issues involved are not settled, enough has been done to keep the most abusive methods in check.

Instalment Selling and the Usury Laws.—Some economists argue that both a loan of goods and a loan of money should be subject to laws forbidding usury. Using legal terminology, they maintain that in essence an agreement to forbear and an extension of the use of a sum of money are both loans. In practice, however, instalment selling has long been exempted from these laws by a line of decisions stemming from a famous British case which held that a sale of goods on credit is not a loan of money.[2] As a result of this doctrine, retailers and sales finance companies can set carrying charges large enough to cover their costs and leave a profit without charging usury. Needless to say, retailers

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[1] The Federal Government refuses to recognize garnishments of the wages and salaries of its employees. Congress has thus far failed to pass any of several bills intended to change this situation. Its attitude apparently is based upon technical considerations in constitutional law that need not be discussed here.

[2] Beete v. Bidgood, 7 Barn. and Cress., 453 (1821) and 1 Man. & Reg., 143. See also R. Nugent, *Legal Problems and the Consumer Debtor*, p. 1, and J. R. Collins "Evasion and Avoidance of Usury Laws," 8 *Law and Contemporary Problems* (Winter, 1941), p. 58, for adverse criticisms of this legal doctrine.

cherish their advantage greatly and make every effort to prevent identification of their "sales" with "loans."

Small-loan companies have had to get their relief through special legislation. By aggressive and persistent promotion they have persuaded the legislatures in approximately three fourths of the states to pass laws that conform closely to the Uniform Small Loan Law long sponsored by the Russell Sage Foundation.[3] Proponents of these laws defend the rates they permit on the theory that the low statutory rates of interest permitted commercial lenders will not cover their costs on small-consumer loans. Since the consumers' need for a loan service is admittedly great, the laws are designed to make permissible rates high enough to support an open and aboveboard operation. Even with this argument behind them, small-loan agencies face recurrent debate with legislators as to how much leeway they need on rates.

Commercial banks have operated under a number of handicaps in trying to enter the field of consumer credit. In some states small loans at remunerative rates are almost impossible for commercial banks because they are granted no exemptions for this purpose from the usury laws applying to much larger commercial loans. Where small loans are permitted at higher than commercial interest rates, there are wide variations as regards the methods of obtaining permission to enter the business, the amounts that can be loaned, and the rates of interest that can be charged. In many states the prohibition of banks' setting up branch offices also restricts the effectiveness of their competition for the financing of consumer durables.

Some industrial banking companies have converted to commercial banking in recent years, and these now face the problems of commercial banks. Those that have not have found their financing of instalment sales by retailers almost unregulated, but their cash instalment loans very strongly restricted. Their escape from the full effects of the usury laws has come through a legal doctrine that permits successive payments on a loan to be accumulated as investment certificates or hypothecated deposits and used to pay the note in one sum at maturity. Under this system the net sum actually loaned by the bank drops steadily, but technically it remains unchanged. Interest may be charged at the maximum legal rate on the original balance for the full period, rather than on the declining balance. The true interest rate is thus virtually doubled.

Approaches to Direct Controls of Instalment Buying.—In contrast to such indirect, fragmentary, and piecemeal regulation, stand attempts

[3] For a description of the development of the Uniform Small Loan Law, see R. Nugent, "Small Loans in Wartime," 25 *Better Times*, April 28, 1944, pp. 1, 2, published by the Welfare Council of New York City. The development of small loan controls from 1898 to 1932 is described in more detail in F. B. Hubachek, *Annotations on Small Loan Laws.*

made to regulate instalment buying directly. Legislation for this purpose may forbid specific abuses that have developed in instalment buying as well as in other types of merchandising. An example is the wage-assignment racket under which a salesman induces a consumer to take certain goods home "for examination" and asks him to sign a receipt that turns out to be a contract of sale and a wage assignment. Alternatively the law may be designed to stimulate legitimate competition among sellers and lenders. This approach adapts to instalment buying the objective underlying the Uniform Small Loan Law. The so-called disclosure principle may be cited as an example. It requires the instalment contract to show certain specific facts concerning the cash price, the credit price, the difference between the two, any other charges or fees, the down payment, allowances on trade-ins, the balance payable, and the terms on which it is to be paid. The reasoning back of such a requirement is that a fully informed buyer can shop more effectively for the best bargain than one who has only vague ideas as to what he is being charged specifically for the credit component in the bundle of services provided by the retailer.

Another approach to the problem of control relies upon administrative regulation rather than upon detailed statutory restrictions and requirements. It has been used primarily for financing agencies, but at least one state has experimented with a system of licensing instalment merchants. The restrictions imposed upon licensees may be few and mild or numerous and severe. They may, among other provisions, include a schedule of maximum or minimum charges. They may be designed to strengthen the position of the seller, of the buyer, or of third parties. Sometimes they seem to be designed primarily to reduce the rigors of competition among sellers and lenders. Bitter experience has convinced many businessmen that licensing is subject to political abuse, so they usually oppose this approach to regulation even when they approve the objectives sought.

Still another approach to the problem of regulation is that illustrated by the British Hire-Purchase Act of 1938, to which we shall come shortly. This law is intended to strengthen the position of the instalment buyer as against the seller. To accomplish the purpose, it depends, not upon an administrative agency, but upon some changes in the processes of litigation and in the contractual rights and obligations of buyers and sellers.

The Uniform Conditional Sales Act.—One important attempt to attain uniformity among the states in their regulation of instalment buying has been made with limited success. This is the Uniform Conditional Sales Act drawn up by the National Conference of Commis-

sioners on Uniform State Laws.[4] Recommended in 1918, this act has been adopted by only ten states.[5] Eight of these adoptions came before 1926, and it had been assumed until recently that there was little likelihood of further extension to additional states. Indiana passed the law in 1935, however, and New Hampshire adopted it in 1945, so its expansion may not be over.

As recommended by the commissioners, the Uniform Conditional Sales Act binds the seller to any express and implicit warranties in the contract; requires the seller to file the contract within ten days after the sale if he wants protection against third parties; protects the seller against fraudulent conversion of the goods and their concealment or removal to another jurisdiction; sets up detailed procedures for repossession, resale, division of the proceeds of sales, and deficiency judgments; and forbids waiver of the statutory protections by the buyer except for voluntary give-ups of the goods that relieve him of further obligations under the contract. Because these provisions are regarded as unduly restrictive by spokesmen for the sellers, and as failing to correct important abuses by spokesmen for the consumers, the Uniform Act has been widely opposed and little supported. Here doubtless lies the reason for the failure of the proposal to make much headway.

Even where it has been enacted, the effects of the law are often quite limited. In Pennsylvania, for example, the definition of "conditional sale" excludes the bailment lease, which is a very common form used for instalment selling in that state. Elsewere the seller may avoid technical requirements of the law by selling under a chattel mortgage. The Conference of Commissioners recommended a Uniform Chattel Mortgage Act in 1926 and 1927, but no states have thus far adopted it.

Other Comprehensive State Laws.—Under pressure from critics of instalment buying, several states have passed comprehensive regulations of other types during the last decade.[6] These have also been generally opposed by instalment sellers except in New York and Maryland, and they leave the more extreme critics of instalment buying dissatisfied. They vary quite widely in scope. Some cover the entire field of instalment buying; others regulate only parts of the business, usually instalment sales of motor vehicles or the operations of sales finance companies. A considerable range and variety of questionable business prac-

[4] In his discussion of the Uniform Conditional Sales Act, the Uniform Chattel Mortgage Act, and other specific state laws or proposed laws, the present author has relied very heavily upon the *Conditional Sale—Chattel Mortgage Service*, published in three volumes and kept current by Commerce Clearing House, Inc.

[5] These states, and the dates on which they made the act effective, are: Arizona (1920), Delaware (1919), Indiana (1935), New Hampshire (1945), New Jersey (1919), New York (1922), Pennsylvania (1925), South Dakota (1919), West Virginia (1925), and Wisconsin (1919).

[6] Indiana, Maryland, Maine, Massachusetts, Michigan, New York, and Wisconsin are the most important.

tices is covered by one or another of these laws, and the correctives prescribed vary accordingly.[7]

For abuses believed to grow out of the one-sided nature of the contract or the signing of contracts in blank, the laws rely primarily upon requiring that contracts be filled out and upon full disclosure. In other words they try to make it easy for the buyer to protect himself rather than to force protection upon him. To protect the buyer against deceptive and excessive carrying charges, the laws rely upon full disclosure, requirements that services charged for be performed, and outright prohibition of misleading statements about charges or of "excessive" charges for insurance, repossession, delinquency, and refinancing. Indiana provides for maximum charges to be set by an appropriate administrative agency.[8] To assure fair dealing on repossessions, some of these laws prescribe carefully detailed procedures. To protect the buyer against an additional miscellaneous group of questionable practices, the laws rely upon outright prohibitions, prescribed forms, and provisions for the cancellation of licenses to do business.

The New York Conference on Instalment Selling.—The New York laws merit special attention because of the exceptional procedures that brought them into existence. The bills were drawn up by the New York Conference on Instalment Selling, which was formed by a group of people interested in instalment selling, both its friends and critics. It included representatives of retailers, finance companies, manufacturers, the Better Business Bureau, the Legal Aid Society, the Russell Sage Foundation, and the general public. After investigation, the conference drew up and recommended to the legislature a group of bills designed to eliminate the principal ills it had discovered. The bills were passed unanimously in 1941 and became effective as of January 1, 1942.

The acts require a detailed disclosure of prices and terms, and introduce restrictions designed to safeguard buyers into the laws governing repossessions, retention by the buyer of repossessed goods, deficiency judgments, the division of payments made by the buyer between old purchases and "add-ons" in consolidated contracts, guarantees by third parties, wage assignments and garnishments.

This is the only example of comprehensive state legislation governing instalment buying in which there has been no controversy before the legislature. All groups interested in the subject expressed agreement. This fact, it should be noted in passing, makes some confirmed and

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[7] The classification of questionable practices here used is based primarily upon C. Mindel, *Retail Instalment Selling.* See Chapter 19 below for a more detailed discussion of abuses in instalment buying.

[8] Pennsylvania in 1947 enacted a law placing statutory limits upon financing charges in instalment sales of automobiles, but there is some uncertainty both as to the practical effects of the law and its constitutionality.

perhaps cynical opponents of instalment buying suspicious and inclined to remark that the primary purpose of the conference was to stave off stricter regulation.[9]

Federal Regulation Under the Antitrust Laws.—Direct Federal regulation of instalment buying thus far has been confined to proceedings under the Antitrust Laws and Regulation W, issued by the Federal Reserve Board in 1941 under powers delegated to it by the President.[10]

Although many things done by authority of the antitrust laws have affected instalment buying, such as the Federal Trade Commission's action against deceptive practices in skip tracing,[11] only two major proceedings have been directed specifically against important practices in this field. The first was an action brought by the Federal Trade Commission to abolish the so-called Six Percent Plan used by finance companies in instalment sales of automobiles. The Commission concluded that this plan was misleading in that it tended to make consumers think the carrying charge was a true interest of 6 per cent per annum, whereas it was really 6 per cent on the original balance, which comes to nearly 12 per cent true interest. After discussions between the companies and the commission, which held the plan to be unfair competition within the meaning of the law, a stipulation was drawn under which the companies agreed to give up advertising their charges in such a way as to mislead buyers into confusing "charges" and "interest." The General Motors Acceptance Corporation refused to sign the stipulation, and was ordered to cease and desist from the practices after a final hearing. The commission's order was subsequently upheld by the courts.[12]

The other major antitrust proceeding was brought by the Department of Justice to break up the relations between the "big three" automobile manufacturers (The General Motors Corporation, the Chrysler Corporation, and the Ford Motor Company) and their preferred or owned finance companies (the General Motors Acceptance Corporation, the Commercial Credit Company, and the Universal Credit Cor-

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9 A description of the origin, organization, and proceedings of the conference, a summary of its recommendations, a summary of the changes made in the New York laws, and the standard forms of contracts and other documents suggested by the conference after passage of the laws will be found in New York Conference on Instalment Selling, *Report and Recommendations*, and *Suggested Standard Forms to Comply with New York Instalment Selling Laws and Summary of Changes in These Laws, Effective January 1, 1942,* both published in 1941 by the conference at its New York office. The present author is indebted to James B. McMahon, Jr., chairman of the conference, for aid in preparing this section.

10 The Soldiers' and Sailors' Civil Relief Act of 1940 affected instalment debt, as it set up a plan to handle all outstanding obligations of men taken into the services; but it has no significance for peacetime.

11 Discussed more fully in Chapter 19.

12 114 Fed. (2d) 33 (1940) and 312 U. S. 682 (1941). See Chapter 12 for a discussion of the difficulties of determining "true interest" rates on instalment purchases. See M. V. Ayres in J. H. Cover, *Financing the Consumer,* pp. 95–97, and W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices,* pp. 201–203, 267–268, for defenses of the Six Percent Plan made by the companies.

poration). Independent finance companies had long contended that the manufacturers coerced their dealers into financing through the preferred companies. The independents also complained that the preferred companies received discriminatory assistance in advertising and in the handling of financing routines. Indictments charging the companies and several of their officers with violating the antitrust laws were returned in 1938 in the United States District Court for Northern Indiana. Ford, Chrysler, and their associated companies consented to decrees effective as of March 15, 1939, but subject to any final decision made as regards General Motors. The General Motors group refused to sign but was convicted in the subsequent trial and lost its subsequent appeals.[13] Meanwhile Ford and Chrysler had divested themselves of their minority interests in the finance companies with which they were affiliated.

Under the decrees signed by Ford and Chrysler, their dealers may deal with any finance company, as they choose. The manufacturers may draw up recommended financing plans, but must permit them to be effectuated through any finance company. An important exception to the rule of equal treatment is that the manufacturers may give a number of special services and privileges to "registered" finance companies. These are companies that follow a prescribed procedure in agreeing to deliver insurance policies to buyers who pay insurance premiums, sharply restrict their use of wage assignments, garnishments, additional securities, and deficiency judgments, and limit the amounts of fees charged for extending, rewriting, and reinstating contracts.

Subsequently Ford, Chrysler, Commercial Credit, and Commercial Investment Trust, which had taken over Universal Credit, petitioned the Indiana court for release from some provisions of the consent decrees. The specific requests of the various parties varied somewhat, but in substance they asked permission to restore some aspects of the favored-company arrangement under conditions that would obviate any coercion of the dealers. The petitioners argued that the Government had never brought the civil action required to subject General Motors to restrictions comparable to those imposed by the consent decrees. The petitions were denied without formal opinion, and the companies appealed to the Supreme Court of the United States which, up to the middle of 1947, had not passed upon the matter.

To some extent these consent decrees represent an effort to introduce, by judicial process, reforms that Congress and most of the state legislatures have so far refused to enact into law. The importance of this attempt should not be minimized, although the practical effects

[13] 26 Fed. Supp. 353, 121 Fed. (2d) 376, (1941) and 314 U. S. 618 (1941).

thus far have been small because finance companies have declined to register. The effects of the decrees upon the structure of financing in the automobile business cannot be judged until the sales pattern returns to normal.

Regulation W.—The most controversial control thus far imposed by the Federal Government upon instalment buying was Regulation W.[14] First issued in August, 1941, and amended frequently thereafter, it was imposed as part of the effort to expand war production and control wartime inflation. Its objective was to see that the pressure of war-swollen incomes upon prices of consumer goods whose output had been curtailed was not further increased through feeding additional purchasing power in the form of consumer credit into the economic system. At first its controls applied only to instalment sales and cash loans made to finance the purchase of goods. Later, charge accounts and other forms of consumer credit also came under control. After the war the board gradually dropped parts of the credit structure from control and eased its restrictions on the others, but opposed vigorously proposals to abandon all restrictions. Over its objections, however, Congress by specific legislation brought the board's controls over consumer credit to a close as of November 1, 1947.

The central principle upon which Regulation W rested is that the amount of credit outstanding under instalment contracts can best be controlled by manipulating down payments and length of contract terms. The regulation accordingly set a minimum percentage of the cash price below which the down payment might not fall, and a maximum number of months beyond which the contractual terms of payment might not extend. The specific down payment and terms prescribed varied for different goods and from time to time, but presumably held within limits somewhat more restrictive than the board believed would be set by a free market. Other provisions of the regulation at its greatest wartime extension put a minimum of $5 a month or $1.25 a week on individual instalments; put restrictions on cash loans comparable to those on instalment sales; required payment of charge accounts by the tenth day of the second month after the purchase; established procedures for the consolidation of accounts; and required the seller to give the buyer a written statement of each transaction, which must include a description of the goods sold, the cash price, the down payment in cash, the trade-in and its cash value, the deferred balance,

[14] For present purposes it has been convenient to use the texts of the President's Executive Order No. 8843 delegating controls over credit to the Federal Reserve Board; of Section V (b) of the law under which this order was issued (the Trading with the Enemy Act of 1917); of Regulation W and its successive amendments; and of the various interpretations and forms drawn up by the Board for use in administering the regulation, as printed from time to time in Volume I of the *Conditional Sale—Chattel Mortgage Service* of Commerce Clearing House.

the amount of any insurance premium and of the charge for credit, the time balance, and the terms of payment.

Whether the particular forms of control over terms used in Regulation W are best for the purpose has been the subject of heated debate. Two other possibilities suggest themselves: (1) to fix the limit on terms as an average for the enterprise rather than as a specific maximum for individual sales; (2) to limit the firm's aggregate outstandings rather than the terms. Both plans would give the merchant more flexibility than the one used in allocating the credit permitted according to consumers' needs. Both (and especially the second) would put more positive and exact limits on the expansion of credit. They probably would be more difficult to administer and enforce.

Controversial Aspects of Regulation W.—Several factors, in addition to the ordinary resistance to new controls, account for the heated controversy that swirled about Regulation W. One was the fact that the executive order under which the regulation was issued made a very strained interpretation of the law from which it derived its authority. During the war, credit sellers and cash lenders accepted the regulation as binding for patriotic reasons, but some of them felt they were in effect coerced into obeying rules the President and the Reserve Board had no lawful right to impose upon them.[15] A more important source of controversy was the persistent suspicion of some instalment sellers that the strongest motive behind the regulation was not to combat inflation but to control instalment buying. Motives cannot easily be measured, so one can neither prove nor disprove the validity of the suspicion. The fact of the suspicion is undeniable, however. No doubt one reason for it lay in the fact that among those who participated in the original drafting of Regulation W were individuals who had long advocated drastic changes in the institution of instalment buying.[16] Evidence of the reformer's hand is to be seen in the requirement of complete disclosure of the terms of the transaction. Many instalment sellers, especially those selling goods other than automobiles, also felt that Regulation W discriminated against their trades in regulating them more severely than other credit sellers. Here again it would be difficult to prove discrimination, but the fact that some instalment sellers believed it existed cannot be questioned.

15 Although in one case the Supreme Court refused to review a lower court's decision imposing penalties for the violation of Regulation W, it did so without hearing arguments on the constitutional issues involved and without a formal opinion.

16 Conspicuous among these were Leon Henderson, then head of the Office of Price Administration and Civilian Supply, and Rolf Nugent, who represented him in discussions with the Federal Reserve Board. Both had long been active in efforts to regulate instalment buying. See Nugent and Henderson, "Installment Selling and the Consumer: A Brief for Regulation," 193 *Annals of the American Academy of Political and Social Science,* 93–103 (May, 1943); the preface by Isador Lubin to Nugent, Hamm, and Jones, *Wage Executions for Debt;* and Nugent's preface to his own *Consumer Credit and Economic Stability.*

More important than any of these factors in leading to controversy were sharp disagreements as to whether regulation of down payments and contract terms would have any appreciable effect during the war upon the volume of credit buying or the amount of credit outstandings. After the imposition of Regulation W the debate shifted to whether it had had any substantial effect. At first there was some disagreement, but by the end of the war it seems to have become a generally accepted conclusion that the regulation had played a minor part in reducing credit sales and terms. The available information indicated that the wartime curtailment in the output of durables, especially automobiles and major appliances, was principally responsible for the drop in instalment sales and that the great expansion of money incomes accounted for the shortening of terms.[17]

Most important among the factors that made Regulation W so controversial was the early discovery that the Federal Reserve Board intended to make a determined drive for legislation to perpetuate its authority into years of peace. Until the end of the war, the board, in public at least, treated Regulation W as a war measure. Subsequently, despite some apparent division of opinion among its members, it started a move that in the end proved unsucessful to obtain from Congress permanent authority over instalment buying as part of a group of so-called "selective" controls over the country's credit structure.

The problems of the effects of instalment buying on economic fluctuations, and of the need for and probable effects of control, will be analyzed in Chapter 24. Here it is enough to note that Regulation W became one element in the assortment of powers the central banking authorities believed they must have in carrying out their duty of helping to smooth the business cycle. In fact there is evidence that the board first thought of the regulation as a measure for peacetime, and subsequently adopted it as a war measure.[18] Even after Regulation W expired late in 1947 the board renewed its efforts to revive its wartime powers of control over instalment credit in its recommendations to

[17] An excellent statement of the position that Regulation W did more harm than good to the economy, including the argument that the long-run effects were inflationary rather than deflationary, may be found in M. I. Behrens, Jr., "Time Pay Restrictions Should Be Stopped," *Retailing Home Furnishings*, December 27, 1943, pp. 39 and 65, Section 2. See also W. J. Cheyney, "Give Instalment Selling the Green Light," published in four parts during October, 1946, by *Retail Home Furnishings;* R. I. Robinson, "The Downward Course of Consumer Credit," *7 Journal of Marketing* (April, 1943), pp. 345–349; and "Too Rapid Expansion of Consumer Credit Will Jeopardize Postwar Stability," *27 Bulletin of the National Retail Dry Goods Association* (1945), No. 5, pp. 16, 17 and 53–56. Regulation W inspired a voluminous literature, much of it fugitive in nature. Those interested will find much material in various issues of the *Federal Reserve Bulletin, Retail Credit Survey, Survey of Current Business, The Credit World, The Credit Management Year Book,* and *The People's Credit,* and in the transcripts of various conferences on consumer credit.

[18] Carl E. Parry, who directed the administration of Regulation W during the war, said in a talk at Minneapolis in November, 1941, that the studies that eventuated in Regulation W began in June, 1940, and were directed toward regulation "primarily in time of peace." *Conference on Consumer Credit in the National Emergency: Proceedings,* p. 60. The form

Congress concerning steps to be taken against inflation as an aspect of the Administration's plans for postwar economic aid to Europe. As this book went to press, Congress had reached no decision in the matter.

The British Hire-Purchase Act of 1938.—Outside of the United States, two examples of governmental control deserve consideration here—the British Hire-Purchase Act of 1938 and the Canadian wartime controls. British instalment sales have ordinarily taken the form of hire-purchase (much like the American bailment lease) for goods having a considerable repossession value, such as automobiles, furniture, and pianos.[19] Where repossession is likely not to be worthwhile, as in the sale of books, clothing, and drapery, merchants more commonly have used the so-called deferred payments plan, under which title passes to the consumer with the down payment. The Hire-Purchase Act is restricted almost entirely to hire-purchase transactions and applies even to these only when they provide for the payment of not more than 50 pounds on purchases of motor vehicles and railway rolling stocks, 500 pounds on purchases of livestock, and 100 pounds on any other goods.

The law establishes sweeping restrictions on the right of repossession. Where the buyer has paid as much as one third of the purchase price, the seller may not repossess the goods forcibly on his own initiative but must resort to court action. When an action for repossession is brought, the court may do any one of three things:

1. It may order that all of the goods be returned to the seller (technically the "owner"), with such provision as it deems fit concerning any further payments called for in the contract. This line of action is intended to protect the seller against an irresponsible or unprincipled customer.
2. It may order that all the goods be returned, but postpone execution of the order on condition that the purchaser make "reasonable" payments periodically as determined by the court in the light of the customer's ability to pay. The seller must accept the payments set by the court. If the buyer fails to make the payments, the owner may repossess without further hearings unless the court has specifically withheld this right. If the purchaser violates any other conditions

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of control used was first suggested by Nugent in his *Consumer Credit and Economic Stability*, pp. 238 and 244, and subsequently endorsed by Haberler in *Consumer Instalment Credit and Economic Fluctuations*, p. 6. The belief of the Federal Reserve Board that it must have several selective controls over credit, Parry traced back to 1926.

[19] The British Hire-Purchase Act may be found in Halsbury's *Statutes of England*, Vol. 31, p. 659 (I and II George VI, Ch. 53). The author's description of the British instalment system, this law, and its probable effects has drawn upon V. R. Fox-Smith, *Hire Purchase Organization and Management;* J. E. Hamm, *The English Hire-Purchase Act, 1938;* B. Thomas, "Britain Moves to Clean up Furniture Instalment Evils"; and A. Vallance, *Hire-Purchase.*

of the agreement or wrongfully disposes of the goods, the seller must come back into court for relief.

3. The court may order the purchaser to return part of the goods and give him title to the rest. In order to allow for depreciation of the value of goods while in the buyer's possession, a cost properly chargeable to the buyer, the judge may permit the purchaser to retain part of the goods only if what he has paid exceeds the price of the goods he is allowed to retain by at least one third of the unpaid balance.

More drastic are provisions that permit the buyer to terminate the sale agreement and return the goods at any time. He does so by paying any delinquent instalments, plus the amount, if any, by which one half of the purchase price exceeds the total amount actually paid in, plus damages if he has failed to take reasonable care of the goods. The one half required to be paid in is presumed to compensate the merchant for such expenses as commissions and delivery charges and for depreciation.

To be enforceable at law, either a hire-purchase or a deferred-payment contract or underlying note of guarantee must include or be accompanied by a note or memorandum making full disclosure of the terms and the goods traded. The seller is required to state at some appropriate place a cash price for which the goods may be purchased by the prospective buyer. As regards collateral or additional securities, the act makes plain that liability under these securities ceases when the liability of the buyer under the original agreement ceases in accordance with the act. The seller is required to give warranties to the buyer that he can "enjoy quiet possession of the goods" and receive a good title to them upon completion of the conditions provided in the contract, that he will receive goods of "merchantable quality" and "reasonably fit" for any particular purpose the buyer has told the seller (expressly or by implication) he expects to use them for. "Linked on" contracts (i.e., "add-ons") are made subject to the rules governing the original contract when one third of the price of the original purchase has been paid, and the buyer is permitted to decide how periodic payments shall be divided between new and old purchases.

The Hire-Purchase Act went into effect only nine months before Great Britain went to war against Germany, so there has been no opportunity to test its peacetime effects. No adequate test is possible until a reasonable period of operation under peacetime conditions with durable goods in ample supply has been experienced. During the war, Great Britain apparently did not find it necessary to institute special controls over instalment buying as a whole. Very far-reaching controls over retailing in general, the disappearance from the market of most durable and semidurable consumer goods, and the introduction of extremely

rigorous rationing, all combined virtually to eliminate the instalment operation from English business.

Minimum down payments and maximum maturities were established in the sale of the limited quantities of certain types of furniture available. These restrictions were considerably more liberal than those under Regulation W, doubtless reflecting the fact that in normal times British instalment transactions are made on smaller average down payments and for substantially longer payment periods than is characteristic of American instalment trading.

Wartime Controls of Instalment Buying in Canada.—Canada assigned control over consumer credit to its Wartime Prices and Trade Board, which had the general responsibility for checking price inflation in the Dominion.[20] Insofar as can be judged from this distance, its regulations combined ideas from the British Hire-Purchase Act of 1938, Regulation W, and the efforts of various interests in Canada to introduce reforms into the institution of instalment selling as conducted in peacetime. In order to discourage credit sales of any type, Order No. 225 forbade sellers to quote a credit price to anyone unless asked to do so by the purchaser, and unless the cash price had been quoted first. Charge accounts were made due and payable not later than the twenty-fifth of the month following the month of sale. As under Regulation W, the order required written contracts itemizing the agreement in detail, and set minimum down payments and maximum maturity periods that varied from time to time and for different goods. A number of other requirements apparently were intended to tighten the administration and prevent evasion.

The most conspicuous new contribution of Order No. 225 to the regulation of instalment buying was one that set floors below which carrying charges might not fall. The seller was required to quote a cash price lower than the credit price by a finance or carrying charge of not less than ¾ of 1 per cent per month on the total amount financed if it was less than $500, and not less than ½ of 1 per cent a month on amounts of $500 or more. In addition, he must subtract any insurance premiums and other fees payable by the purchaser. A seller who customarily charged a larger finance or carrying charge than that noted above in a specified basic period might continue the higher charge but no more. A seller who, during the basic period, customarily sold for cash at prices differing from the credit price by less than the amount of the charges specified might not add the difference to his credit price except

[20] Canadian controls over instalment credit were embodied in a series of orders from December, 1941, onward, numbered 75, 87, 161, and 225. The description here applies to No. 225 and is based on Wartime Prices and Trade Board, *Order No. 225, Respecting Consumer Credit,* January 12, 1943.

with the written consent of the Director of Consumer Credit. In effect, this meant that the seller could be required to reduce his cash price if he had not previously made what the authorities regarded as an adequate differential between his cash and his credit prices. The order also restricted "lay-aways" to three months, and limited advertising of trade terms to the phrase, "Terms in accordance with wartime prices and trade regulations."

Although it is difficult, in the absence of full records, to judge the objectives of those who imposed these restrictions, it should be noted that they are of a type long advocated by merchants who would like to see "competition in credit" restricted in peacetime. Even before the end of the war it had become evident that some retailers in the Dominion would make every effort to continue into the peace the rules requiring statement of both the cash price and the credit price and setting minima for carrying charges. However, all controls over consumer credit were vacated by the Dominion Government on January 13, 1947. On this occasion the Finance Minister stated in Parliament that the controls were dropped because their purpose had been served and continuation of the expense of administration was unwarranted.

Efforts by Commercial Organizations to Control Instalment Buying.—Trade associations and other commercial organizations in the United States have tried at various times to institute voluntary, as distinct from governmental, standards and controls. Thus various associations of sales finance companies undertook repeatedly between 1924 and 1941 to fix minimum down payments and maximum maturity periods for instalment sales of automobiles.[21] The specific terms accepted as most desirable became more liberal over the years, but the principle held. Their success has been very limited. For goods other than automobiles, it has been impossible to set up standards applicable nationally, and no association has the power to enforce them. In fact, associations must use very great care to hold anything they do as a group within the limits set for them by the antitrust laws.[22]

There have been many attempts to set up such standards in particular communities or trading areas. Most of the country's cities at one time or another have had gentlemen's agreements, if not formal understandings, among the department stores and some of the larger specialty stores, including instalment stores, concerning carrying charges, minimum down payments, and maximum terms for various types of goods.

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21 Described more fully in Chapter 13.

22 Attorneys for the National Retail Credit Association have expressed the opinion that community credit policies under which merchants agree to maintain "sound terms" and establish uniform practices and procedures for the purpose would violate the Federal antitrust laws if they affect interstate commerce. See letter from Jesse Andrews to L. S. Crowder, 35 *The Credit World* (February, 1947), No. 5, pp. 4–5.

Sometimes a trade association for a particular trade, such as furniture, will induce its members to accept a uniform plan, or a credit bureau will bring pressure upon its subscribers to adhere to approved standards.

Such efforts have had a rather narrowly limited success. In some communities the merchants refuse to get together, and in every community there are some merchants who refuse to adhere to any program. These dissidents are likely to be individualists who see some competitive advantage in refusing, say, to quote a carrying charge or to adhere to the community's standard for the amount of charge or the maximum maturities permitted. Small merchants sometimes dissent because to a very considerable extent they live by undercutting the standards and prices set by the bigger stores.

Trade groups occasionally find it possible to set up community credit policies that are accepted both by many merchants and by consumers in the area. Perhaps the most conspicuous example is the community credit policy adopted by the principal merchants of Minneapolis and kept in effect more or less successfully for some years before the war. It established terms that were accepted as standard by the leading downtown merchants, pressed merchants to advertise credit conservatively, and worked out agreements among the merchants to deny additional credit to seriously delinquent buyers. Very elaborate campaigns of education and propaganda have supported the Minneapolis plan, as does publication of the so-called *Yellow Book,* which lists all the credit buyers in the community and gives them a credit rating. Great effort is made to build up local pride in having a good *Yellow Book* rating.

Some national associations of retailers have also worked energetically to establish nationwide standards and controls. A conspicuous example is the aggressive and widely successful campaign made by the National Retail Furniture Association in the middle 1930's for a carrying charge in instalment sales of furniture stated as an addition to the cash price. Prior to this campaign most furniture merchants quoted the credit price and gave a discount for cash. The association also recommended that the carrying charge be one half of one per cent per month on the original unpaid balance. The campaign, while it did not completely eliminate the other method of quoting prices, did induce most of the larger furniture merchants throughout the country to change over.

National and local associations have also endeavored to establish ethical standards of various kinds for instalment selling. These standards have varied widely in nature and objective. Those of the National Retail Credit Association, for example, try to promote the use of credit reports on all applicants for credit and to establish terms that conform to "sound" standards. Local jewelry associations have tried to stop the

use of terms or illustrations in advertising that tend to deceive the consumer as to the size and quality of precious stones. Furniture associations try to discourage deceptive illustrations in advertisements or misleading statements concerning the cost of credit.

Better Business Bureaus throughout the country have exerted some influence in checking objectionable practices, especially in sales promotion.[23] The bureaus ordinarily rely upon investigation and persuasion to improve promotional practices. In a few communities the bureaus have arrangements with groups of merchants and with newspapers and radio stations under which all advertising by these merchants is submitted for examination before publication or broadcasting. If any proposed advertisement violates the standards agreed to, the bureau calls the advertiser's attention to the violation and urges a revision. Usually the advertiser changes his copy. If he refuses to do so, most bureaus can go no further with the matter. In one or two communities another step is possible because the agreement with the advertisers permits the bureau to recommend to the media that any offending advertisement be refused. The recommendation is not binding in any way upon the media, but it exercises some influence, especially where the offenses complained of are serious.

[23] See National Association of Better Business Bureaus, *A Guide to Retail Advertising and Selling,* 2d ed., 1938, pp. 26, 27, for a description of approved standards for competition in promotions of credit.

CHAPTER 9

THE INSTALMENT RETAILER

The Typical Instalment Retailer.—A typical instalment retailer in any meaningful sense is no easier to find than a typical instalment buyer. Multiplied thousands of retailers sell on instalments, and they differ widely among themselves in every possible characteristic except that they all sell on instalments. Large and small; in shopping centers, isolated neighborhoods, and side streets; single units and multiple units; sellers over the counter, by mail, by peddling, and by house-to-house canvassing; clean and dirty; ethical and unethical; aggressive in their merchandising and inclined to drift; honest and dishonest; diversified in the stocks they carry and highly specialized; efficient and inefficient; showy and stodgy; owned by all sorts of Americans; assets and disgraces to their communities; traps for the unwary and scrupulously fair in all their dealings—instalment retailers comprise practically all merchants who sell durable goods to consumers. Very rare indeed is the merchant who sells such goods for cash only.

These facts must be kept in mind because many of those who write or to whom one talks about instalment retailing have in mind some particular store or a small group of stores, not the full range of retailers who sell on instalments. Thus a merchant asked to describe an instalment retailer may look at stores like his own. Sometimes he will think of a group of merchants from whom he wants to differentiate himself, even though he himself sells freely on instalments. These other stores may be the "small fry" who live on the crumbs from his business; or the crooks who can be found in any occupation; or retailers whose only offense is that they sell to the submerged third of the community's population; or merely strong competitors. To an unfriendly critic of the instalment system, "the" instalment retailer is likely to be the unethical operator. Either man may sum up his concept of the instalment retailer in the contemptuous epithet "borax."

The Origin and Use of "Borax."—"Borax" is a widely used term of uncertain meaning and origin. It apparently appeared first in the furniture business and is still used there chiefly, although it has spread to some extent to other trades. Whatever its origin, it came in time to

be applied to any retailer whose credit operations corresponded to those of what Mussey called the "fake" instalment business operating among the immigrants in New York City around the turn of the century:

> It is carried on by a small class of men who stand low in the scale of social, educational, and moral development. They handle chiefly shoddy and worthless goods, the sale of which they force by every dishonorable artifice known to the trade. Thus the business is wholly bad, even from the economic standpoint. In addition to this injury, grave enough in itself, the dealers have systematically cultivated the prosecution of a large number of suits, in order to get cash on instalment contracts. In carrying out this purpose they have flagrantly misused the machinery and the processes of law, committing daily perjury, buying marshals, corrupting courts. As a result they are breeding hatred of law among a class of people who especially need respect for law, but who are compelled to look upon it as made for the oppression rather than for the defense of the poor and weak.[1]

From here it is only a step in loose usage to apply the term to any seller on instalments whose business procedures are in any degree questionable, especially if he adopts aggressive and spectacular techniques in advertising and selling. It is also easily applied to any merchant who achieves a conspicuous success in the rough and tumble of competition, especially a newcomer, a foreigner, or someone who started as a peddler or secondhand man and is now climbing out of his economic or social class.

Sometimes a merchant will apply the term to any competitor whose business practices he regards as a little less ethical than his own. This judgment may spring from his own abandonment of specific questionable practices. It is not at all unusual for a merchant to refer to himself as a reformed "borax" operator. Occasionally one will say that he expects to go in for this kind of operation again, more or less unwillingly, when the competition grows stiff, as he believes it will in some future hard times. More commonly the merchant who refers to others as "borax" houses seems to be trying to convince his listener, and possibly himself, that his markup really is lower, his collections easier, his selling less aggressive, the quality of his goods better, the terms he grants shorter, or his operations more dignified than those of his competitors.

The term is commonly applied to goods as well as to stores; indeed it may have been applied to goods first and then, by extension, to the stores handling such merchandise. Originally it apparently meant shoddy goods deceptively sold. More recently it has come to mean goods made to sell at low prices, and especially goods characterized by

[1] H. R. Mussey, *The "Fake" Instalment Business*, p. 32.

what the trades call "flash," i.e., showy goods designed to appeal to uncultivated tastes.

Any attempt to classify all instalment retailers as "borax" not only condemns many honest middlemen but also leads to many misunderstandings concerning the nature and functions of instalment buying. As we shall see in Chapter 19, retailers who sell on instalments run through the full range of ethical standards. They are not typified in their worst members.

It is also mistaken to suppose that the instalment retailer is characteristically a fly-by-night individual who exploits a market and moves on. One of the strongest bits of evidence supporting the argument that instalment selling serves a genuine need is the large number of stores one can find that have been selling on instalments for two or three generations. Some of them started as peddlers or side-street stores selling to immigrants and other low-income buyers, but the business they built up has been solid and lasting.

The Location and Appearance of Instalment Retailers.—Contrary to ideas frequently expressed, instalment stores in physical location and appearance do not have any conspicuous characteristics that differentiate them from other retailers of the same goods. Some commentators speak of the credit store as a dingy, furtive operation upstairs or on a side street to which customers can go without the knowledge of their neighbors. To others, the credit store always makes itself as conspicuous as possible in order to shout its wares. Its windows are "full of paper"; its newspaper and radio advertising "screams"; it offers "impossible" bargains. Still others think of the credit retailer as a merchant who sells credit primarily and goods secondarily, relying upon severe collection methods to stay in business. Some see the instalment house as a store that leaves its name off trucks, packages, and envelopes so that neighbors of its customers need not know where they buy. Yet again the instalment store is viewed as one where seller and buyer higgle over every price, or merely as a store of which its owner cannot be proud because he never sells to his own social class.

Although a few merchants fit into each of these types, the over-all effect of such a description is false. The truth must be reiterated that practically all merchants selling consumer durables sell on instalments, and most of them sell a very substantial part of their durables this way. What they are like depends more upon the kinds of goods they sell, the particular segments of the community to whom they appeal, or the choices they make among alternative ways of attracting and holding trade, than upon whether they do or do not offer credit. All automobile dealers, for example, sell on credit. Where they are located, what sort of stores they run, what kinds of advertising they do—these are deter-

mined not by their selling on credit so much as by the characteristics of the automobile and people's attitudes toward it.

Economists have not worked out persuasive principles of retail location within a community. It is clear, however, that large unit values and infrequency of purchase make consumers willing to shop for automobiles in places that would be extremely "inconvenient" for other kinds of goods. One therefore finds "automobile row" well outside the central shopping district. There the large floor space required can be obtained for smaller rents, and the dirt, noise, and fire hazard involved in operating a garage become tolerable. Similarly, furniture stores, requiring very large selling floors and much space for important activities "back of the house," must lose in the bidding for choice locations to stores who do a large volume in small space. Furniture stores thus tend to settle in clusters or as individual units on the fringes of the downtown shopping centers, or in the neighborhood shopping centers, or in isolated spots away from all other stores. Department stores do something analogous to this by putting furniture stores on their upper floors.

Credit offered by only one among many competitors under such circumstances would naturally give that one store strong advantages in pulling customers to its location. When virtually all furniture retailers offer credit, however, location must be explained on other grounds. The goods, not the bases of sale, pull customers into the stores.

Credit jewelers point up this rule. They promote credit heavily, but usually settle in downtown or neighborhood shopping centers. They can bid successfully for such locations because they have discovered what may be called the mass market for jewelry and reached it by offering such goods at relatively low unit prices in "dressed up" stores at easily accessible locations, promoting their business aggressively, and selling on terms. Credit merchants have also been more willing than the old-fashioned "cash" jewelers to stock and promote nonjewelry lines. In fact, many old-line jewelers, when they condemn "credit" jewelers, are likely to think not so much of credit as of the loss of "tone" they feel the jewelry trade suffers from having its merchants become operators of a sort of high-priced variety store. The characteristic location of the jeweler who aggressively promotes credit sales is thus a resultant of many forces, among which credit selling is only one and not necessarily the most important.

In the sale of soft goods of low unit value on instalments, still another locational pattern has appeared. A considerable volume of such trade has been sold by house-to-house canvassing agencies. Headquarters can be located almost anywhere, but the trading is located at the buyers' homes or places of employment. Salesmen commonly sell a

combination of goods whose aggregate price will be, say, $19.50 or $29.95, or some other odd-cent price. The customer buys the goods for, say, 50 cents down and 50 cents a week, to be paid either to the salesman, or, more commonly, to a route man who takes over after the sales crew moves on. The route man tries by additional sales to get the customer up to a dollar or more a week for an indefinite period.

For his customers as a group, the effort of the route man is commonly referred to as building up and maintaining his route balance or (as in industrial life insurance) his debit. He tries to keep his outstandings up while bringing in payments about as scheduled. To do this he must sell "adds" to customers as they pay out, or find new customers to take their places. A good salesman with a strong merchandise organization behind him can often sell a customer three or four times in succession before the account finally pays out.

The Influence of Instalment Selling on Location of Stores.—One must conclude from these examples, which could easily be expanded, that instalment selling as such plays no clearly identifiable part in determining the location of stores. Merchants selling particular kinds of wares have characteristic locations determined largely by the kinds of things they sell, the kinds of customers to whom they appeal, their promotional methods, and their consequent ability to bid against other claimants for store sites. Stores in all sorts of locations sell on instalments.

It certainly is not true now, and probably never was true to any great extent, that instalment selling is a secretive trade done on upper floors or down side streets so that customers can buy on credit without having their friends know it. Similarly, it is not merely the house-to-house canvassing organizations that operate by sending crews of salesmen out of a store or office or hotel or warehouse. It is not exclusively the aggressive merchandiser using flamboyant sales promotion in a conspicuous spot downtown, or the public utility interested in expanding its sale of gas or electricity more than in selling appliances on credit, or the store which does not care what kind of goods it sells just so it gets the customers "locked into" an instalment contract, or the shabby store around some corner that offers little except easy terms, or the upstairs vendor of shoddy clothing to extravagant customers.

One must take with very great skepticism such statements as, "Not so long ago instalment shops were usually located on side streets, on second floors, or in back alleys simply because it was assumed that respectable customers would not want to be seen in them. At that time the existence of such stores was dependent on individuals in economic distress." [2]

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[2] M. Moskin in the preface to H. Blumberg, *Successful Credit Store Operation*, p. ix.

As a generalization concerning the instalment buying of, say, pianos, sewing machines, household appliances, and automobiles, this quotation has no validity whatever. Even for clothing and furniture it has only a little validity as to the facts, and virtually none as to the reasons for the location pattern.

Credit merchants include all known varieties of location and type. Where they locate, and the kinds of building, fixtures, and facilities they use, are determined more by the type and quality of goods they handle and by the types, location, and shopping habits of consumers to whom they appeal, than by whether or not they do a substantial volume of their trade on instalments.

Working Schedules of Instalment Retailers.—Analogous conclusions apply to the working schedules of instalment merchants. In normal times many merchants selling on instalments have kept open evenings several times a week. In some communities dealers in automobiles and furniture have kept open for business seven days a week and thirteen or fourteen hours a day. Representatives of furniture stores commonly make appointments to show goods to consumers at any mutually convenient time, whether or not the store is technically open for business. Again, however, credit seems to play no considerable part in the situation. Community custom, government regulations, agreements with unions, agreements among retailers, set the frame within which a store's sales or hours must be placed.

Beyond these, the dominant factors seem to be the extent to which the merchant is hungry for business and the need of his potential customers. Goods of high unit value commonly require consultation and shopping by families rather than by individuals. Stores that hope to sell these goods must provide opportunities for such shopping. Hours of operation must vary according to the extent to which the customers sought can or cannot conveniently come in at particular store hours. Credit plays little or no part, since stores that open at the customary downtown hours sell on credit too.

Chain Stores and Instalment Selling.—Some commentators seem to think of instalment selling as a creature of the chain store. There is no evidence to support this opinion. Instalment credit is used by independents of all sorts as well as by chains. Some of the most aggressive and possibly less scrupulous credit sellers are multiple-store groups either formally organized into chains or loosely affiliated.[3] So are some of the most conservative and ethical retail organizations. It should

[3] Studies of ownership organization in retailing have largely neglected groups of interlocked stores that are neither independent nor formally organized into chains.

also be noted that some of the so-called "worst actors" in the business are single store independents.

Particularly interesting is the fact that a single ownership sometimes operates stores of widely variant appearance, policy, and reputation in the same community, perhaps only a door or two apart. One can never judge what a store is like by its ownership or what its ownership is by its outward appearance. Some of the most important retail organizations selling on instalments, especially in jewelry and apparel, are not really known to the public at all. They operate as leased departments in other stores. Some groups run both stores and leased departments.

The Place of Credit in Instalment Retailing.—The "instalment seller" is thus not a particular merchant readily differentiable from other merchants by the physical characteristics of his store and facilities or by its location. He is, rather, an abstract personification of certain attributes common to the overwhelming mass of retailers who sell consumer durables. Like all abstractions, he must be drawn carefully and used with discretion to avoid serious mistakes. If the credit merchant can be differentiated in any meaningful sense from other retailers of durable goods, he will have to be isolated by intangibles rather than by the physical characteristics of his store.

Many merchants who sell on instalments are not happy about doing so. They do not like or understand selling on credit, but look upon it as an unavoidable evil forced upon them by their customers and competitors. On the other hand, the personal interest of some retailers lies more in working with their ledgers, selling credit, and planning collections, than in buying and selling goods. They believe the credit business is where their best opportunities for profit lie and push for it even as against sales for cash.

Some merchants, particularly those who have accumulated substantial amounts of capital, prefer the instalment business because it gives them a profitable use for their funds, builds customers' loyalty to the store, makes for repeat sales, and reduces season-to-season and even year-to-year fluctuations in revenue. They may or may not engage in the more extreme forms of credit promotion, but they set up their stores to promote credit almost as much as, if not more than, the goods themselves, and more than any other service. One can identify them, however, not by outward appearance and location, not even by their advertising, so much as by the personal attitudes of the owners and managers and the intangible effects these have upon the day-to-day running of the business. They differ only in degree from merchants who promote cash and credit sales impartially, just as these differ only in degree from those who sell on instalments because of competitive necessity rather than personal preference.

"Free" Services in Credit Stores.—As a class, retailers who sell on instalments give a considerable variety and volume of so-called "free" services. These include a number of activities, such as delivery, adjustments, repairs, and exchanges, as well as facilities for shopping, wide selections of merchandise, advice on styles, and the like. The services are not really "free," of course. In a very fundamental sense a retailer has nothing to sell except services. The goods he distributes come to him virtually finished in form. What he adds is a bundle of services that make the goods more useful to the consumer. The ones called "free" are so called because the retailer gets his price for them in his general margin rather than as a special fee, and because in some vague sense the retailer thinks of them as being added to the minimum of essential work a store is supposed to do for its customers. The concept is important because differences in the services rendered to consumers usually go far toward explaining the difference between so-called "low-cost" and so-called "high-cost" distributors.

By and large, costs of retailers who sell on instalments tend to fall above rather than below the average. Most goods they sell require a great deal of work in the warehouse, workrooms, and store before consumers see them. After the sale they entail delivery, installation, repair, and adjustment. All these make for high costs. The phenomenon must be attributed to the nature of durable goods rather than to the terms of sale. In addition, it is generally agreed, the retailer assumes a still further burden of service when he sells on instalments rather than for cash. The basic reasons are that dissatisfied customers are hard to collect from and do not make repeat purchases.

All this must be added to the cost of the credit proper, which we shall consider in Chapter 18. Merchants interviewed by the author have estimated that in their stores it adds 2 or 3 or even 4 per cent to the selling price. Some part of the cost would remain on goods sold for cash, but there can be no doubt that customers tend to make more unreasonable requests, and the merchant is more likely to grant them, when the buyer still owes part of the price.

Not all of the "free" services are forced on merchants by their customers. Often merchants use them deliberately to promote sales. Thus one large furniture retailer before the war advertised a lifetime guarantee of its goods, and spent very considerable sums each year making repairs and adjustments of goods sold long before. Another furniture dealer used to pay the first year's premium on a life insurance policy for newlyweds who bought furniture from him. This kind of thing is a promotional expenditure and needs to be evaluated on the same basis as any other expenditure for advertising.

The Quality of Goods Sold on Instalments.—No aspect of instalment buying has raised more heated controversy than the quality of the goods sold on instalments. Many opponents of the system take it for granted that instalment buyers receive shoddy goods. On the other hand, instalment sellers maintain that they offer values as good as anyone else does at the price. Some maintain that they offer better values, not poorer, because unit costs come down sharply when the effects of instalment credit on volume have worked themselves out, because goods must stand up in use during relatively long payment periods and because the stores must rely heavily upon repeat sales to the same customer.

As in many controversies, the disputants do not always make the issues clear. The contention that instalment sellers give poor values can mean at least three different things:

1. That dollar for dollar, the instalment buyer gets a poorer return for his money than the cash or charge buyer. A $50 watch bought on instalment is, this argument runs, a poorer watch than a $50 cash or charge watch.
2. That the typical instalment sale is in the lower price brackets.
3. That such values as instalment goods have are surface values, the goods being showy rather than substantial.

A full analysis of the first of these statements will emerge only after the problems raised by prices, margins, costs, profits, and ethical standards have been studied in later chapters. The other two can well be discussed here, however. Are instalment goods primarily goods of low unit price and of low intrinsic value covered by a flashy exterior? Quantitative data are lacking. Whether they can be obtained with a high degree of precision is doubtful. To take an extreme case, the quality of a diamond varies according to its weight, character (that is, its shape and dimensions), cut (that is, the number of facets and the skill with which they are cut), color, and faults (such as flakes of carbon or "feathers"). The layman who talks to expert appraisers will emerge with a strong suspicion that, even when they use similar equipment, they see different things in a stone and give a different emphasis to what they see. Furthermore, how does one evaluate a large stone with several flaws as against a small but more nearly perfect one? For durable goods other than diamonds the difficulties admittedly are less extreme, but they are still present in some degree. So one must rely upon informed opinion rather than upon specific measurement in comparing the qualities of instalment and cash goods.

For the most important instalment goods, the accusation of poor quality can be dismissed out of hand. New automobiles and the large household appliances are standardized by brand and model. Cash and

instalment buyers purchase the same goods. Instalment buyers are more likely to buy used cars than cash buyers. They also may concentrate more heavily upon low-price cars than do cash buyers, although there are no statistics to prove this. But at all price and age levels sales on both bases abound, so that none can properly be considered the special province of either type of buyer.

Instalment Furniture.—Furniture presents an entirely different situation. Manufacturers are numerous and relatively small. No individual brands dominate the market, and models are not standardized. No thoroughly organized system of trade-ins and resales exists. Manufacturers offer a wide range of qualities, and consumers demand almost infinite variety in detail if not in basic construction. Included in the offerings one finds large quantities of the showy furniture already mentioned. It pleases the uncultivated taste of the masses who buy it (if not the aesthetes), and is made of cheap materials to fit into low-price lines. Interviews with merchants make it clear that such goods are offered because consumers want them, not because they reflect the retailers' own tastes.

The belief that this alone is instalment furniture is mistaken. All kinds of stores sell all kinds of furniture on instalments. We have seen in Chapter 5, however, that low-income families tend to use the instalment system more than the well-to-do in buying furniture. It follows that the furniture manufactured for these consumers must be made to sell at relatively low prices. It should not be forgotten, furthermore, that low incomes rather than credit account for the situation. The quantitative predominance of this sort of furniture in the market arises, not from the institution of credit, but from the predominance of the poor in the population.

Instalment Jewelry.—Much jewelry can be described correctly as having been designed specifically for the instalment trade. One of the major accomplishments of importers, manufacturers, designers, and distributors has been to discover a huge instalment market for jewelry (especially watches and diamond rings) among people of low income. They tapped this market, not only by selling on credit, but also by designing products that appeal to this group at prices they can afford to pay. The great bulk of the instalment business comes from these goods. It is true that without looking very hard one can find jewelry items with values going far up into the thousands of dollars being bought openly in instalments, but few stores try to do any substantial instalment business in this kind of jewelry. Their business lies rather in watches selling for $50 or less, and in diamonds retailing at $50 or $100 or $200.

Here one finds an important reason for the feeling of the old-fashioned jeweler that credit jewelry is shoddy. The "cash" jeweler has liked to think of his business (whether accurately or not is beside the point for the moment) as one of selling costly goods to a select few of the population. He is distressed to find his trade becoming one that sells low and medium priced goods to the mass of the population. Compared with the finest examples of the watchmaker's art and with the rarest precious stones, the items sold to the mass of the instalment buyers must be cheap. Expensive though they are to those who buy them, they necessarily seem tawdry to those whose tastes were trained on rarer things. This is quite different, however, from saying that instalment sellers do not give good value for the prices they charge.

Instalment Clothing.—Semidurables such as clothing, when sold on instalments, are usually of the lower grades. This is not completely true of goods sold on "budget" terms of three or four months, but it does apply to goods sold on longer terms. The reason is that only the very poor are likely to buy these goods on such terms, and they cannot afford merchandise of high quality. There are exceptions, such as furs and women's suits and coats, where quite expensive items will be bought on instalments.

Value and Price in Instalment Buying.—In summary, then, we come to the following conclusions concerning the quality of the goods sold on instalments:

1. That goods sold on instalments extend over a wide range of grades.
2. That goods of relatively low price predominate in instalment selling because the bulk of the instalment buyers receive low incomes.
3. That many goods, and especially jewelry, are designed especially for the instalment market.
4. That the impression of shoddiness some people say they get from instalment goods comes largely from comparing them with very expensive goods available to only a wealthy few rather than from determining whether they represent good value for the money spent.
5. That automobiles and large household appliances are specially designed to reach the lower income groups through instalment sales to a smaller extent than furniture, jewelry, or clothing.
6. That automobiles meet the demand of low-income consumers primarily through an elaborately organized system of trade-ins under which cars are ordinarily resold at intervals of three or four years.

Personnel of Instalment Stores.—The personnel problems, policies, and procedures of retailers who sell durables on instalments for the most part differ little from those of other retailers, and so call for no

considerable notice in the present study. Two principal exceptions may be noted—the heavy emphasis many instalment retailers put on aggressive personal selling in their stores, and the need for competent handling of credit controls and collections. Credit and collections can best be covered in later chapters. Here attention will be directed to the instalment salesman.

As a class, retailers of durable consumer goods unquestionably rely heavily upon personal selling in the store or by outside canvassers to move their goods. To some extent the situation is changing, but in many stores impersonal selling through advertisements, store display, and the like often are designed more to attract people to the store than actually to sell goods. As we shall see in Chapter 10, most stores avoid the cruder forms of "bait" advertising intended to do nothing more than deliver the customer into the hands of a salesman. Much furniture promotion assumes, however, that many, if not most, customers come in with only a class of goods in mind, or that they eventually buy something different from the specific item which originally attracted them to the store.

The salesmen are thus intended to be active selling forces, not mere order takers handing goods to consumers who know what they want, and confined to routine work such as keeping the stock in order and making out the sales slips. As regards automobiles and major appliances, it is true, the manufacturers assume much of the burden of creating demand for their product through advertising. For most durable goods, however, the store plays the leading part in influencing the demand of the consumer. This is true of the so-called cash stores selling goods of relatively high unit value, as well as of instalment stores. There are still survivals of the old turnover, or "t.o.," system of organizing salesmen in layers, as it were, so that a customer who is about to be lost can be turned over to another more skillful man and perhaps to a third or fourth in order to save the sale. The physical layout of the instalment stores, their other promotional activities, and their compensation plan for salesmen, all reflect this emphasis upon personal selling.

As regards compensation, for example, interviews with instalment merchants in various parts of the country make it abundantly clear that commission systems of payment, or combined salaries and commissions, are almost universal in stores and departments selling on instalments. This again is true of virtually all stores selling durables whether for cash or on credit. The details of individual plans vary greatly as to types of commission, guarantees, and drawing accounts but agree in the over-all result. Relatively few stores pay either a straight salary or a salary plus bonuses or commissions that constitute a minor part of the total wage. Furniture stores in particular have held to the commis-

sion plan. Jewelers have got away from it more generally, although many still rely upon it. Because of wartime abnormalities in their situation, dealers in automobiles and major appliances were not interviewed on this subject. It can hardly be doubted, however, that they will continue to rely heavily on commissions in paying their salesmen.

The physical arrangement of furniture stores emphasizes the function of the salesman. In a typical furniture store the consumer does not wander around freely, as in a department store, until he has made up his mind as to what he wants. A salesman meets him near the door and escorts him through the departments he wishes to visit. Some furniture stores do not even keep all departments lighted but have buttons to be pushed when the customer is escorted in. Comparatively few stores have solved the difficult problem of using floor displays effectively, although the industry is spending a great deal of money in experimentation.

Credit jewelry stores have also relied heavily in the past upon personal selling, but, in recent years at least, not to the same extent as furniture stores, if the personal observations of the author are to be relied upon. The present-day credit jeweler sells his goods by a combination of advertising, window and store display, and personal selling, backed by effective development of products. The customer must be attracted to the store, of course, and the salesman has important tasks to perform, but his work is considerably narrower in scope in most stores than in the typical furniture store. He is also less important than in many old-line cash jewelry stores where the salesman builds up over the years a personal trade among customers who ask for him specifically when they come in.

Outward evidence of the difference is to be found in the considerably less widespread use of the commission plan of payment by jewelers than by furniture men.[4] It also lies in a more general use by jewelers of clerks, as distinct from salesmen in any aggressive sense.

House-to-house canvassing and aggressive house-to-house collecting (the two being combined in some operations) also have been on the decline for some years in all lines of instalment buying.[5] This form of collecting had tended, even before the manpower shortages of the war years developed, to dwindle in most establishments to one or two individuals sent out to "adjust" rather than to "collect" delinquent accounts. There were some survivors of the older type of collector who works a regular route, makes routine collections, and sells "adds" to outstanding accounts. Some stores also used canvassers to follow up

[4] It should be noted in passing that high-pressure stores do not have to rely upon commissions. They can pay high salaries and discharge ruthlessly any salesmen who fail to earn them. In practice the commission plan is the one ordinarily used for the purpose.

[5] See Chapter 16 for a further discussion of house-to-house collecting.

notices of engagements, marriages, births, the construction of new houses, and movements into the city, although most stores do such promotion by mail. Least common, but still to be found, were aggressive types of house-to-house canvassing under which salesmen take goods with them to sell and deliver on the spot or try to induce customers to return with them to the store. A few of these were in very active organizations continually recruiting new blood, but many were nothing more than the survivors of an earlier day in instalment selling who were being carried along but not replaced as they dropped out.

The Trend in Personal Selling.—It is apparent, then, that the kernel of truth in the conventional portrait of the aggressive, persistent instalment salesman lies in the trade's heavy reliance upon personal selling. The portrait is a caricature, although individuals can be found (and doubtless always could be), who conform to its ugliest aspects. The general trend, however, has been away from the reliance on personal selling and toward reliance on a more institutionalized selling that makes use of all the store's resources, not its sales staff alone.

Difficulties retailers faced during the war hastened the change. Scarcity of goods and abundance of income during the war eliminated any need for aggressive selling and greatly eased collections. Scarcity of men made it necessary for stores to get along with fewer salesmen and more clerks. To what extent these forces will carry over into the future remains to be seen, especially as the country catches up with the accumulation of shortages and sellers have to scratch for business. Under such circumstances the pressure for sales will undoubtedly mount once more, and the kinds of employees wanted will shift further toward the salesman and away from the order taker. It would be pure conjecture, however, to guess how far the shift is likely to go. Some house-to-house organizations that suspended or curtailed operations during the war have come back into the market, although there is a wide disagreement among merchants interviewed as to the extent and importance of the revival. Whether these organizations can recapture the markets they held even in the years just before the war remains to be seen.

CHAPTER 10

SALES PROMOTION BY INSTALMENT RETAILERS

The problems of sales promotion faced by retailers who sell on instalments, the devices of sales promotion available to them, and the basic managerial procedures of sales promotion they use correspond in most respects to those of all other retailers. In only a few ways does credit raise problems or permit of procedures in sales promotion that are peculiar to itself. The discussion here is confined to these special matters.

Ways of Promoting Credit.—Some of these arise in promoting the credit service itself, as distinct from the goods. A merchant who decides to promote credit, either as his most profitable stock in trade or as one of his most important services, may choose among several procedures. On the assumption that the first problem is to get the credit buyer started, the store may put a great deal of expense, effort, and ingenuity into inducing him to make his first purchase. The effort may be anything between a very dignified series of letters inviting applications for accounts and a smashing offer of some spectacular bargain to be sold on credit only.

In practice merchants usually soften extremely aggressive drives for credit customers. Thus a store, if it holds strictly to announcements that certain goods are offered for sale on credit only, runs the risk of building up ill will in the community. Many consumers find it difficult to see why a merchant who will sell on credit should not want to accept cash. So cash ordinarily will be accepted if offered, but the promotional campaign will be conducted in such ways that few people who want to pay cash come to the sale. Most credit sellers, it should be said, even those who emphasize credit in their promotions, frown on these extreme techniques, but a few use them and they merit attention.

The merchant who promotes credit aggressively, in addition to encouraging the customer's first purchase, does much to encourage him to build up his outstanding balance and keep it as high as his circumstances warrant. This is the store's equivalent of the canvasser's effort to build up his route balance described in Chapter 9. It may start at the first sale, when the salesman tries to "sell the top of the terms," as one merchant put it to the present author. That is, the salesman may

induce the customer to use his cash as a down payment on an instalment purchase rather than as the full price, and to obligate himself for as long a period into the future as the store thinks prudent. The store must act carefully. It will lose the customer if it presses him too hard, and it will take severe losses if it sells him more than he can pay for. Nevertheless, skillfully used, such techniques can contribute to building up the volume of business done and the amount of capital the retailer can use profitably in his business.

The "add-on" is another device that encourages the buyer to use his credit. It is not equally well adapted to all types of retailing. For example, a store that sells only automobiles or major appliances finds that its customers buy what it sells at intervals, not continuously. On the other hand, stores that sell jewelry, clothing, home furnishings, and the smaller household items find that many customers buy frequently enough to keep their accounts active for long periods. Some of these accounts become virtually indistinguishable from charge accounts.

"Easy Terms."—The merchants who decide to emphasize the sale of credit are likely to go in for promotions that minimize the difficulty of paying for goods bought on time. Such merchants often advertise "Easy Terms," "Nothing Down," "Nothing to Pay Until after Christmas," "Pay Just 21¢ a Day," "3 Years to Pay," and the like. They tend to emphasize terms more than price, perhaps more than the goods themselves. They often reduce the down payment to a nominal amount. In the copy and typography of their advertisements, and possibly in their window displays, they stress the down payment and the periodic instalment rather than the aggregate price. They stand in sharp contrast to the stores at the other extreme who emphasize the goods or the price, or both, and at most merely mention the availability of "convenient" or "dignified" credit.

The same store may change its policies from time to time. Thus a new store may break into a market by aggressively promoting credit, but, once established, it may turn to more conservative and more dignified methods of promotion. The fact that stores swing back and forth in their credit policies is partly the result of a search for new ideas to use in sales promotion. Almost any store is likely to take a fling at credit promotion when other ideas run out. Partly the swing simply reflects the times. Stores that can afford dignity and restraint in good times may find them to be luxuries in bad times.

Credit as a Device of Sales Promotion.—The promotion of instalment credit as a service to be sold in the hope that it will itself yield a profit is intermingled with its use as a device of sales promotion comparable with advertising and salesmanship. The merchant may use it as

an alternative to advertising in the newspapers or by radio, relying upon word of mouth advertising of his credit terms by his customers. He may use it rather than pay high rents for a choice location where large numbers of people will pass his doors and windows in the regular routine of their affairs. Mere knowledge that he offers "easy" credit will be enough to bring some people (possibly enough to keep his store going profitably) down side streets and up stairs to where rents are low.

The effectiveness of instalment credit as a promotional device is greatest, of course, where it is offered by only a few merchants in a community or in a trade. When credit became virtually universal among stores selling durables, its strength as a drawing card for any one store became negligible, except among the least desirable elements of the population whom many stores will not accept as credit customers Under such circumstances credit may continue to be useful in competing with purveyors of nondurables, but it may also become a defensive weapon rather than an aggressive one. It is then that merchants may begin to urge the desirability of separately stated carrying charges that cover at least the direct out-of-pocket costs of extending the credit.[1]

The Credit Manager as Salesman.—A very familiar problem in retailing is the conflict in point of view between the credit manager and the merchandise manager or salesman. Executives responsible for sales look upon all the store's activities, including credit extension, as being directed to one end—sales. They object to the restrictions of conservative policies established by credit managers who look upon their primary function as being to preserve the accounts receivable asset of their employers. Some credit managers stress their functions as part of the mechanism set up to sell goods to consumers, but one gets the feeling that for many of them this is an idea accepted reluctantly if at all.

Some analysts look upon credit as being in the first instance a device for selecting the customers to whom the store wants to appeal. As merchants set about carving out places for themselves in their communities, the offering of instalment credit on durables and semidurables is one way in which they concentrate the direction of their efforts. If they stress instalment credit, they in effect choose to do business with customers to whom credit is particularly important. The degree of emphasis they put upon credit, and the nature of the specific credit plans they offer, serve further to select the types of customer they want. If the customers sought are primarily interested in credit, wanting to know first what they can have if they use their available cash as a down payment and how long they will have to pay for the rest, credit will be the stock the store must push in trade. Even then it can be successful only

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[1] See Chapters 11 and 12 for a fuller discussion of this problem.

if other aspects of its operation are fitted to the primary choice of the market thus made. The store must offer the kinds and grades of goods, and types of accompanying service, likely to be wanted by customers whose first interest is credit.

Credit and Competition for the Consumer's Dollar.—Instalment sellers universally believe they gain a considerable advantage from selling on credit in the complex give and take of competition among different goods sometimes called the battle for shares in the consumer's dollar. Some critics express doubt that in the long run instalment buying has a considerable effect upon the distribution of the consumer's dollar. In particular they doubt whether sales of durable goods would drop permanently to a small proportion of retail sales, as some advocates of instalment buying argue, if they were sold strictly for cash. In the present state of knowledge a scientific answer to this question is impossible, so that one must fall back upon informed judgments. What cannot be disputed is that instalment credit has been pushed by both producers and distributors who are in close touch with their markets.

As a tool for promoting new goods, credit perhaps operates first as what the jargon of house-to-house canvassing would call a "door-opener." That is, it helps make the prospect receptive to further sales efforts. Consumers as a general rule do not accept new products eagerly, especially products of high unit value. Most of them tend to hold back and let a few pioneers take the risks. They do this presumably because prices are high when output is small and because most goods come to market before they have been perfected, but also out of sheer inertia and conservatism. A sale on instalments helps break down both the immediate expense and the conservatism. It encourages the risk takers by permitting them to go ahead at once without first saving up for a long time.

The fragmentation of payments through instalment buying also seems to make the contrast between large and small unit-values less striking. In the absence of elaborate field studies, conclusions as to the precise effects upon consumers of changing the ways of quoting prices must remain conjectural. Retailers of durable goods have no doubt, however, that for many consumers the value that determines choice is not the full price but the down payment and the successive instalments. An $80 suite of furniture seems expensive when contrasted with one dollar spent for two tickets to the movies. On the other hand, a dollar a week for furniture is not so different from a dollar a week for the movies, when the consumer gets immediate possession. Even if the merchant wants $8 or $10 as a down payment, the durable good suffers little in the comparison.

Similar principles doubtless explain the willingness of consumers to be "sold the top of the terms," as already noted. Just as a consumer looking at an item of large unit-value often comes to believe he can afford it if he divides the price into small payments, so, looking at the sum of money he has in hand, he may come to believe that he can afford something better if he uses his money as a down payment. In effect, the consumer not only spends what cash he has in hand but also sets aside for this particular use portions of an income he has not yet received. There can be little doubt that the resultant sales of goods of large unit-value is substantially increased over what it would be otherwise.

The Use of "Add-ons" in Promoting Sales.—"Add-ons" are used by merchants to keep customers spending with a store all or part of the amount they have grown accustomed to setting aside week after week to meet their instalments. Stores often make a considerable effort to keep their accounts alive by persuading the customers to add new purchases as their balances due fall to low levels. Critics sometimes object to this practice. One goes so far as to say, "Little can be said in extenuation of this business practice, and much needs to be done to safeguard both the retailer and the customer against this indirect exploitation." [2] An ethical merchant would naturally deny that he is trying to "exploit" anybody. In his view, he is merely trying to sell all the goods he can at a profit plus a service he believes to be as legitimate as any other service consumers buy.

The attitude of the unfriendly critic is no doubt influenced by long existent, but in large part inaccurate, ideas as to what the selling of "add-ons" is like. In some pictures of the old-time instalment merchant, a stock scene is the arrival of the customer to make a payment that carries his balance down to a very low figure. The store's organization goes into action. A salesman (preferably the one who made the original sale) is near the cashier's window, summoned by bell or buzzer. His task is to use all his wiles to make a new sale. The whole business may be carried out so adroitly that the customer does not even become conscious of what has happened.

The picture is more a caricature than a portrait in its portrayal of the merchant's determined skill and the customer's helplessness. It can be applied literally to very few stores, although it includes some elements of truth, especially when applied to stores dealing with the poorest elements of the population. In most stores reliance is more likely to be made nowadays upon impersonal selling. Sometimes the cashier merely suggests another purchase when she notices that the unpaid balance is

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[2] C. O. Hardy, *Consumer Credit and Its Uses*, p. 141.

becoming low, but the matter is likely to be handled quite casually and is not ordinarily to be considered high-pressure merchandising. Retailers have tended toward this way of handling "add-ons," not only because many consumers resent pressures of the kind their parents would have accepted as normal (particularly those of foreign stock) but because they can get the business they want at less cost by using the newer techniques.

Furthermore, goods differ greatly in the extent to which consumers add to their accounts. Furniture and jewelry buyers often add to their accounts three or four times when the stores carry an assortment of goods broad enough to make this feasible. The original sale may be doubled or tripled before the account finally goes into the inactive file. In the sale of clothing and other semidurables, instalment accounts sometimes become equivalent to charge accounts, with repayments equalized throughout the year and running along almost indefinitely. Many of the older stores have accounts that have been active for ten years or so, and it is not uncommon to find consumers who proudly characterize themselves as the oldest customers on the books.

Credit as a Substitute for Other Forms of Advertising.—Instalment selling thus serves to some extent as a complement to or substitute for institutional advertising. It helps set up a situation such that when an individual becomes conscious of a need for some item sold by the store, he thinks of it first as a possible source of supply, even though it is not advertising the item at the moment. Instalment selling also can be used to provide a tested mailing list for direct-mail promotions. Once on the credit list, consumers can be sent promotional materials regularly.

The sale of "add-ons" and the building up of consumer loyalty are facilitated if customers come into the store to make their payments. Many stores therefore prefer to have payments brought in rather than mailed or made to a collector. From this point of view they refer to credit as a traffic builder. To increase the number of visits to the store by the community's customers is a principal objective of all retail advertising and promotion. The merchant has many ways to urge purchases, once an individual is in the store for any purpose. So all kinds of merchants find it well worth while to spend money in order to get people through the door. Instalment payments made in the store automatically achieve this effect. Each purchase means several visits by the customer and several exposures to sales appeals.

Deciding How Much to Spend for Sales Promotion.—A very difficult problem businessmen face is that of determining how much to spend for sales promotion. Credit sellers share with other businessmen the fact that no one has worked out a completely satisfactory way of an-

swering this problem. They commonly follow the traditional patterns of their trades and communities. No good statistics are available, partly because the stores cannot always separate promotional from other expenses very clearly.

As regards directly identifiable promotional expense, especially advertising, individual stores make choices extending over a wide range. National or regional averages have little meaning. The differences among stores may reflect primarily differences among communities. In some of the country's smaller cities, for example, furniture stores do almost no newspaper advertising. They believe that advertising can succeed only by taking somebody else's trade and that it is likely to end up with everybody having the same business but paying a higher cost to get it. The best policy, therefore, seems to them one of "live and let live" in competition, while relying upon the quiet techniques of convenient location, good window displays, and personal selling to get a reasonable share of the available trade. Few of them, however, will carry this policy so far as to abandon sales promotion altogether.

In other communities some stores spend heavily on all forms of advertising, going up to 10 per cent or more of their sales volume. Even here many stores will hold down on their advertising because they cannot hope to draw trade from more than a small fraction of the large circulation zone of the media, or because they apportion a larger share of their promotion budget to other devices. Some ride on the advertising of other stores. They settle down near the big advertisers and hope by displaying their wares to pick off a few of the prospects the other stores attract to the area. In most communities there are some stores that rely chiefly upon their owners' contacts in lodges, churches, and other social groups.

Stores also vary in their use of advertising from one time to another. Big promotions may be made from time to time, followed by periods of quiet during which the fruits of the earlier promotions are harvested. Because of the long payment period, an occasional heavy promotion or sale may yield quite regular incomes to the stores. Stores may also use aggressive promotions in off seasons as a method of trying to even the flow of their sales throughout the year.

A new aggressive store is likely to be introduced to its community with a big, smashing sales campaign. This technique has been carried to a high degree of perfection in the jewelry trade, where a new store is likely to make a spectacular drive designed to get as many accounts as possible onto the books in a very short period. After an initial success of this kind the store may follow up with steady, unspectacular advertising for a time, and fall back on another big drive only when the store feels that it needs once more to build up its traffic. There is

also some reason to think that the aggressiveness of a store's advertising goes up in bad times, whereas it can afford to be more dignified in good times.

Reasons for the Shift Away from Personal Selling.—As we saw in Chapter 9 there has been some tendency away from the personal and toward the nonpersonal types of selling in the instalment business, as in retailing generally. Merchant after merchant, when interviewed, will tell of his own movement in this direction. Pressed for reasons, he probably will fall back upon some vague statement such as, "It doesn't pay any more" or "It just isn't profitable."

A more fundamental analysis is required.[3] Real wages have been rising for many decades, chiefly because of increases in productivity. Since the most conspicuous improvement has come in production, narrowly defined to differentiate it from distribution, one would expect a tendency for workers to drift away from distribution. This would have to be checked by increases in the wages of distributive labor if the essentials of a system of distribution were to be maintained. In the absence of offsetting improvements in the efficiency of workers within the field of distribution, this development would be reflected in a rise of the ratio of wage costs to price of goods, and this in turn by a rise in the typical gross margins of distributors. Thus the increase in productivity of factory workers would be shared with those whom the economy needs to keep employed elsewhere.

To store management, this process takes the form of pressure to restrain the rise in their costs by economizing on labor. Even when wages are only moderately high, selling through clerks or salesmen, whether in the store or from house to house, is necessarily expensive. It is basically a man-to-man operation, each individual customer being handled as a unit for all aspects of the transaction. The field for labor saving is thus very large, and the development of methods of distribution promising a substantial economy in the use of personnel would be welcomed by all progressive retailers.

Some opportunities for such savings arose in the development of methods of communication that permit more effective promotion of goods to people in the mass and at a distance, notably the better reproduction of illustrations in printing and the rise of the radio. Further opportunities arose from such factors as gradual development of the principles of display in stores, the disappearance of isolated groups of immigrants whose descendants have merged into the general popula-

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[3] What is offered here can be at best only tentative and fragmentary. Much detailed research needs to be done before anyone can speak with assurance. Some merchants attributed the change to wartime shortages of manpower, but it seems clear that the war merely intensified forces already at work.

tion, the development of the automobile and other means of transportation that make it relatively easy for consumers to shop around and compare the values offered by different merchants, and the improvement of internal controls and records in ways that make it possible to reduce much of the work of the staff to centrally controlled routines.

Media Used in Advertising.—Instalment sellers use all the advertising media available to business enterprises who confine their market to a particular city and its immediate environs or to a particular section of some city.[4] Newspapers and direct mail are the most widely used media. Since many of the smaller retailers serve markets in which they cannot make effective use of newspapers, they are likely to rely more heavily than the larger merchants upon such media as a local shopping news. They use promotional plans and materials worked up by specialized organizations that sell the right to use them to individual merchants in particular areas. Larger merchants, too, use these to supplement the work of their own advertising departments. Retailers also use local radio stations freely (primarily for so-called "spot commercials"), although they disagree as to their effectiveness.

The stores themselves are often used as devices of sales promotion. Their general appearance, their windows, layouts, displays, and decorations can be arranged with great care to attract the attention of consumers and present the goods in the best possible light.[5] Some stores rely heavily upon putting bargain merchandise and huge signs in their windows as devices for drawing into their salesrooms passers-by who have been attracted into the area by other forces. At the other extreme, some stores, especially the large ones selling the better grades of goods, provide styling services and model rooms.

Advertising by Financing Agencies.—Finance companies have at times undertaken to stimulate instalment buying. Thus, shortly before the war, the General Motors Acceptance Corporation organized a direct mail campaign to registered car owners. Its purpose was to stimulate the purchase of new cars by owners of cars not more than four years old, and the purchase of newer vintages of used cars by owners of cars more than four years old.[6] Such a campaign presumably was designed to increase the sale of new cars as well as the financing of sales through finance companies in general and this company in particular. Other

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[4] These media and their use are described fully in almost any textbook on retail merchandising or advertising. The differences in this area between instalment selling and retailing in general, do not warrant detailed discussion here.

[5] Some surprisingly profitable stores violate all traditional rules of appearance and arrangement. It is not at all unusual to find a merchant making a considerable income out of a dirty little furniture store in which everything is piled about and the windows are used as storage space for goods still in their shipping crates.

[6] T. H. Smith, *The Marketing of Used Automobiles*, page 174.

financial agencies have also undertaken advertising campaigns directed either toward the consumers or toward the dealers.[7]

The Degree of Emphasis Upon Credit in Sales Promotion.—Financial agencies necessarily advertise credit because they have nothing else to sell. As we have seen, however, the retailer sells goods and a variety of other services in addition to credit. His advertising necessarily reflects the choices he makes as to the emphasis to be put on each. Most conservative and least controversial are stores that do not mention credit at all in their promotions, even when they make it available to such of their customers as want it. This group includes very few stores selling consumers' durables. Slightly less conservative is the insertion in advertisements or windows of inconspicuous announcements saying merely that the credit service is available for the asking.

Most stores promote credit more than this. Promotion enters into the situation when the store begins to emphasize the fact that choices are open to the buyer concerning the way he shall pay (for example, a line saying something analogous to "3 ways to pay at Blank's"), or when his announcement of the availability of credit is couched in terms designed to influence prospects' attitude toward its desirability ("convenient credit" or "easy credit"). A considerably higher degree of promotional pressure is reached when advertisements begin to indicate that mere lack of money need not prevent purchases ("Why not add a housecoat to your order? Easy terms are available.") or to suggest exceedingly liberal terms ("A dollar down and a dollar a week," "Take a year to pay," "Pay nothing for 30 days").

Stores not only vary widely in their policies on these matters; most of them change somewhat from time to time. They also differ greatly as regards the typographical emphasis they give to offers of credit or of specific terms. The most conservative practice mentions the availability of credit in inconspicuous type. The most extreme advertisements emphasize the credit offer as much as the offer of the merchandise. Thus the advertisement may offer credit with every item advertised, and even mention the terms for each particular item.

Trading Up the Buyer on the Goods.—What the advertisement offers, either in goods or in credit terms, often differs from what the customer actually buys or is expected to buy. Since most consumers want to shop before buying, it is an accepted practice in all retailing for the store to "trade them up." Unfortunately the practice can degenerate into unethical leader merchandising. Unfortunately, also, some critics tend to think of this as being more significant in retailing than it really

[7] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, pp. 81–85, and R. J. Saulnier, *Industrial Banking Companies and Their Credit Practices*, pp. 99, 100.

is. Likewise they mistakenly think of the practice as being more common in instalment selling than in other retailing.

To illustrate the type of practice that is criticized, critics point out advertised goods that, in trade parlance, are "nailed to the floor." The consumer who comes in to look at an advertised suite of furniture finds the units scattered over the store rather than assembled for easy inspection, or he discovers that the advertised watch has been damaged, or that his size in the advertised garment is sold out.

If the goods are there and on display, he discovers that the salesman is peculiarly uninterested in them but urges him to buy something else more expensive or perhaps an item the store wants to clear from its stock. If the first salesman cannot "switch" him, he is turned over to a succession of others. When he finally breaks loose he is apt to find himself saddled with a poor item for which he has paid a high price. Even if he holds out and buys what he came in for he may never receive it. The warehouse makes a mistake and sends him the wrong goods, or the item is dropped and broken, or it turns out to have been damaged in transit, and so on and on indefinitely.

Fortunately these practices are quite rare in the instalment business, but they do take place and injure the trade as a whole. Progressive merchants recognize this. Individually and through their trade organizations, as we have seen in Chapter 8, they work constantly to eliminate both the practices and the mistaken impressions that have rolled up from the past.

Trading Up the Buyer on the Terms.—It is rarely pointed out by critics of instalment buying that a consumer attracted by advertisements of generous credit ordinarily pays on much more conservative terms. Where he has been told he could pay nothing down and take two years to pay, he actually pays 10 per cent or 20 per cent down and agrees to pay out in one year. This is really a form of switching. The absence of condemnation doubtless must be attributed at least in part to the feeling of these critics that the shorter the terms are the better off the buyer will be. They would say that the consumer has been done a service when he is induced to take more conservative terms than he had been led to expect. In the mind of the retailer the offer of extremely easy terms may be merely a spectacular way of advertising that the store offers credit. It should also be said that the consumer who needs longer terms has a right to know where he can get them. Either way, anyone is seriously mistaken who takes the advertisements as a record of the business actually done.

The Extent and Effectiveness of Trading Up.—There are so many and such widely varying retailers selling on instalments that almost

anything said about them will be true of somebody, as would be true of retailing in general. There are some retailers who abuse advertising, and some weak and ill-informed consumers of whom they can take advantage. For most retailers, however, the picture is again a caricature rather than a portrait. It is recognizable only because it exaggerates rather than invents the traits it portrays. Most merchants do use advertising from time to time or fairly regularly as a "puller-in." Most merchants similarly endeavor to trade the buyer up to a more expensive item than he asks for, though not necessarily to a more expensive one than he privately intends to buy when he enters the store. Many of them will have a series of "steps," each representing a slightly more expensive item or group of items (sometimes called a "package"), and the salesman tries to work the customer upward. Sometimes even a cashier can effect a switch by suggesting to the consumer that he ought to have something better than he has bought.

Merchants and their salesmen, when interviewed on the subject, say that the customer himself often does not know precisely what he wants even though he has been attracted by a particular bargain offered in an advertisement or a window display. Often he asks first for something at a lower price than he really wants to pay, so as to leave room for bargaining. Insofar as terms are concerned, if he can, he willingly pays or even insists upon terms more conservative than those advertised because he ordinarily has no desire to go into debt more deeply than is necessary.

It is not an unusual experience in some communities for a retailer who operates on a one-price, low-pressure basis to lose sales because some consumers prefer to bargain and be bargained with. A customer used to the other ways of trading may feel he is being cheated unless, as it was put in one store visited by the author, the salesman turns him over to "the man who cuts the price." Also, it must be remembered, a store's ability to switch on some types of goods is limited by the fact that the expenditure is a major one for the buyer and is made only after a good deal of discussion, the reading of advertisements and other materials at home, and the shopping of several stores.

In any event, "switching" and "trading up" cannot properly be attributed to instalment buying or even to retailing. There is every reason to believe that they are among the oldest stratagems of salesmanship. They are used by all kinds of sellers for all kinds of goods. What instalment buying adds to the situation is merely the fact that the purchase can be stepped up more easily than on a cash sale because the increase is in the amount of the outstanding balance and the period of repayment rather than in the expenditure of cash out of hand.

Account Openers.—Somewhat more subtle, but aiming toward the same basic objective as the leader or the bait item, is the use of account openers. Whereas the consumer is steered away from the leader, he is encouraged to take the account opener, even though it often means a loss or a smaller margin than normal to the seller. The expectation is that once he is on the books, the customer can be sold "add-ons" from which the store will derive its profit. With both leaders and account openers, the occasional customer who, by chance or shrewdness, purchases only the bargain escapes paying the full price. The fact that such escapes are possible acts as a check on the system. It cannot be pushed too hard, especially when customers are good bargainers, without collapsing under its own weight.

Sometimes a campaign based on leaders or account openers may get in the way of effective trading up if it is too successful. When large numbers of prospects are attracted to the store, the clerks may be kept too busy to do much real selling. This is, in fact, the intention of some merchants, who do not expect their clerks to be aggressive salesmen. What they want is large numbers of people attracted into the store.

The Vulnerability of Sales Promotion in Instalment Selling.—Although retailers vary widely in their practices, one clear fact emerges from a consideration of sales promotion in instalment selling. To the great mass of retailers, instalment selling is a strong selling tool. It may be used fairly or unfairly, with good effects or ill. Either way, like any form of promotion, it can be used effectively to persuade someone to do something he would probably not do on his own initiative.

This is important because it opens the way to a double attack by many of the system's critics. First, those who dislike and distrust sales promotion in any field have a basis for opposing instalment buying. Second, those who doubt the desirability of anyone's buying anything on credit find additional support in the belief (shared by retailers) that credit "weakens sales resistance." They would argue that consumers gain when their resistance is strengthened, not when it is weakened. When the two objections are combined, the opposition can become very powerful indeed, and it can crop up in many important places.[8] All this is important to honest and conservative instalment sellers because in defending the instalment system they must justify not only the use of aggressive sales promotion as a general principle, and the use of instalment buying as a general principle, but also the use of instalment selling as a particular instance of sales promotion.

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[8] See, for example, the remarks of Congressmen Fitzpatrick, Rankin, and Hoffman in the *Congressional Record*, March 3, 1944, pp. 2254, 2256, and 2260, and of Congressmen Michener, Robsion, and Celler in *Garnishment of Salaries of Government Employees*, pp. 23, 24, 32, and 65. See also D. L. Cohn, *Combustion on Wheels*, pp. 248, 249, and *Conference on Consumer Credit in the National Emergency*, pp. 96, 97.

CHAPTER 11

PRICING PRACTICES IN INSTALMENT BUYING

Difficulties Raised by Pricing in Instalment Buying.—Retailers differ widely among themselves as regards the assortment of services they offer consumers, and their prices vary accordingly. Within a single store, however, it is not customary to vary prices according to differences in the assortment services the individual consumer uses. In a store that offers a full range of services, the cash-and-carry customer, for example, pays the same price as the charge-and-deliver customer.

Instalment credit has long been an important exception to this rule in many stores. Whether because the apparent cost of instalment credit is relatively large; or because cash buyers refuse to pay any part of this cost when they can save the difference in some other store; or because an ostensible cash discount permits higgling in a supposedly one-price store; or because credit merchants feel they can compete more effectively with cash or charge-account stores in floor prices and in advertising; or because of vigorous competition from cash lenders; or because manufacturers wish to advertise low cash prices f.o.b. factory; or for some other reason, many retailers have long singled out this particular service for a separate charge. The practice is by no means universal, as we shall see, but it is widespread.

The resultant problems of price quotation and interpretation are among the most controversial in instalment buying. Some of the important issues are: Does fairness to the consumer necessitate a separate charge for the credit service? Where a separate charge is made, shall it cover all or only part of the credit service? Shall it include anything other than credit proper? What form of charge best tells the consumer how much the credit service costs and facilitates comparison of competing offers? What form best permits fair adjustments for prepayment and extensions? What form best serves the retailer in his competition for trade, his advertising, and his day-to-day management of selling, pricing, collecting, and adjusting?

Such matters are basically important and must be dealt with, but we must first find out what the prevailing practices of instalment sellers are. This chapter undertakes that task.

Ways of Differentiating Prices for Different Terms.—Under any method of computing the credit service charge, the obligation assumed by the buyer is in the end ordinarily stated as a specified number of periodic payments of specified size. Differences in practice and the resultant controversies arise chiefly over ways of separating the price of credit from the rest of the price. The forms taken by the price of credit vary endlessly in detail, but the overwhelming majority fall into one of three major types.

1. Where the Price of the Credit Is Included in the Price of the Goods.—The first of these types is where the retailer makes no difference in the price charged as between cash sales and sales on any form of credit. He adds no explicit carrying charge and deducts no discounts or rebates for cash or short-term payment. This type of pricing is used by most credit jewelers, many credit clothing stores, and a few furniture stores. It suits particularly well those stores whose customers normally pay out on charge-account terms, that is, within 60 to 90 days.

This system of quoting a uniform price to all buyers, whether they pay cash or buy on credit, has been criticized very severely. Sellers who price this way often advertise "no charge for credit" or "credit at cash prices," and critics condemn this as misleading. The plan is also said to discriminate against customers who pay cash or on short terms. We shall consider the justice of such criticisms shortly; here we merely note their existence.

2. Where the Price of the Credit Is Divided Between the Price of the Goods and a Carrying Charge.—The second major type of credit price divides it into two parts. One is lumped with other retail services into an over-all price. The second is made the object of a special charge. Practically all stores using this plan waive special charges for credit when the customer pays in full within a period falling somewhere between 30 and 90 days after delivery of the goods. Merchants usually speak of payment within such a period as a cash transaction; it is more correctly described as being made at the charge-account, convenience-credit, or open-book-credit price.

Quotation of Charge-Account Price Plus Carrying Charge. When a merchant divides his price for credit into these two parts, his precise quotations may vary greatly in detail, but most of them fall into two general types. Under the first the merchant quotes a price for the goods that covers payment in full within a period varying for most merchants from 30 to 90 days. If the proposed credit term runs beyond this period, the merchant adds an explicit carrying charge. Students are often misled by the fact that this arrangement is usually described as being the

cash price plus a carrying charge. The so-called "cash" price is in fact a charge-account price, since the merchant waives the carrying charge if the customer pays out within 30 to 90 days. Practice varies as to whether the waiver is automatic or is made only upon explicit request from the customer. Practice also varies as to whether all or only part of the carrying charge is refunded. Where the merchant has added no carrying charge at the outset because the agreement calls for payment within 90 days or less, he often makes no attempt to collect a charge from the customer who fails to keep his promise.

The most widely used variant of this arrangement quotes a charge price plus a specified percentage per month or per annum over the period of the contract on the original unpaid balance. Sometimes the plan sets dollar-and-cent minima below which the monthly payment or the aggregate carrying charge may not fall. Within the last twenty-five years many furniture stores have adopted the plan of adding a carrying charge of so many per cent per month on the original unpaid balance, to the open-credit price.[1] Other specialty stores, notably those selling household appliances, musical instruments, and jewelry, have adopted this plan to an increasing extent during recent years. Department stores almost universally quote prices this way.

Advocates of the arrangement have often maintained that the merchants derive added revenue from it. Critics say it is merely a deceptive way of charging the customer more than he thinks he is paying. Either way, merchants generally believe that many buyers find a list price plus carrying charge more attractive than the same aggregate stated any other way. During the depression of the 1930's many retailers accordingly adopted the plan in the belief that it would permit them to pull through with smaller aggregate price cuts. No one has tested the assumption adequately. All one can say with confidence is that many merchants acted on the apparent belief that it is true.

Less common, but by no means unusual, are other variants of the method of quoting the open-credit price plus carrying charge. Thus the merchant may state the carrying charge as a percentage per month of the original unpaid balance beginning 60 or 90 days after the sale rather than immediately, or as a flat percentage of the original unpaid balance without regard to the length of the repayment period. These percentages can be computed on the full purchase price or on the declining balance instead of on the original unpaid balance. Some stores prefer to compute charges as a flat dollar-and-cent addition to the open-

1 See the annual reports of the National Retail Furniture Association on operating experiences of furniture stores, beginning in 1933; "Here's ABC's of the Cash Plus Carrying Charge and Plans for Working It," *National Furniture Review*, September, 1936, pp. 14, 28; and M. P. Masser, "N.I.N.C.C. (No Interest, No Carrying Charge): A Study of a Current Problem," *National Furniture Review*, January, 1936, p. 14.

credit price. Thus some chain stores selling men's suits charge a dollar or a dollar and a quarter for the privilege of paying out on budget terms. Often, especially in the larger retail enterprises, the charges will be specified in a chart as so many cents or dollars for specified unpaid balances and repayment periods. The primary function of such charts is to simplify the work of computation. Some retailers, particularly the mail-order houses, prefer a small chart giving only a few price and term brackets because customers can use it to compute the charges for themselves. In practice the merchant may modify any of these plans sharply by setting minima or maxima of various kinds and by refunds and rebates.

Quotation of Instalment Price Minus So-called "Cash" Discount. The second way of dividing the charge for credit into two parts is to quote the instalment credit price and subtract a discount on any transaction where the customer pays spot cash or on charge-account terms. Although merchants commonly call this a "cash" discount, they usually give it for payment within a period extending up to 90 days. Since cash and charge-account terms pay the same price, this plan is equivalent to adding a carrying charge to the charge-account price. This method was long used by furniture stores because it permitted them to quote the price they received in most sales. The percentage of discount given varies from store to store, time to time, and customer to customer. The traditional furniture-store discount for "cash" is 10 per cent, but the author has been quoted figures ranging from 5 to 20 per cent. Another writer reports a range of 2 to 20 per cent.[2]

3. Where the Price of the Credit Is Added to the True Cash Price of the Goods.—The third major type of credit price adds a carrying charge to the true cash price. Alternatively it subtracts a true cash discount from the instalment price. Since true cash sales are not always easily differentiated from charge-account sales, this type of credit price is often confused with the second. One can determine the nature of the prices quoted in any specific transaction or generally by any specific merchant or trade, only by a careful inspection of all the circumstances.

The system of quoting a spot-cash price plus a carrying charge serves best in trades where most transactions fall into either the spot-cash or the instalment category, and where financial agencies have taken over the task of financing instalment sales. Most conspicuous among these trades is the automobile business. Although some sales of automobiles to consumers have doubtless always been charge-account sales, the bulk of the business has been either cash or instalment, and the price differentiation has been primarily between these two. It has taken a

[2] H. W. Cordell, *Instalment Credit in the Retail Furniture Trade,* p. 32.

variety of forms but has most commonly been either a percentage per month or per annum on the original unpaid balance, or a flat dollar and cent amount added to the price of the car in accordance with a rate chart or schedule provided for the retailer by the finance company.

As finance companies and banks have extended their operations to other trades, this system of adding a full charge for credit to a true cash price has spread. It is widely used in the sale of major household appliances, even by furniture stores that finance their own paper for other goods. Some manufacturers have pushed retailers in this direction by setting resale prices and trade margins such that the retailers cannot include credit in their services and come out with a profit. The retailers thus have to sell for the true cash price (or something closely approximating it), and either to charge the full cost of the credit to the consumer or to pass the entire financing burden along to a finance company. These methods stand in striking contrast to those of some manufacturers and importers of jewelry items who have set resale prices high enough to cover the entire cost of extending credit, and advertised these aggregate prices aggressively.

Another situation that has commonly led to the system of adding a carrying charge to the true cash price is where a retailer changes from a policy of selling strictly for cash and introduces a credit service. The most conspicuous examples in recent years have been the mail-order houses and R. H. Macy & Company, the New York department store. Montgomery Ward & Company and Sears, Roebuck & Company for many years sold for cash with the order or cash on delivery. In order to attract trade, their catalogues quoted low prices to which the customer must add costs of transportation, installation, and the like. When they opened retail stores they held to the principle of selling for cash. Under these circumstances, when they went into instalment selling they found it natural to treat credit as an added service for which they should add a special price. Since they sold only on budget terms without any system of charge accounts, they avoided the problem of differentiating between charge-account sales and instalment sales.

Similarly, Macy's, when it abandoned its long-standing policy of selling for spot cash, found it desirable to charge separately for credit whether charge or instalment. It accordingly charged 6 cents for each unit of 94 cents of the cash price of the goods, without regard to the length of the repayment period. Subsequently this was changed to 6 cents on each 94 cents of the original unpaid balance.

How Borrowing to Pay "Cash" Affects Pricing.—When the consumer borrows from a cash instalment lender and pays "cash" to the retailer, his price ostensibly will fall into the third type discussed.

Superficially considered, this system isolates the entire credit service and permits the customer to pay for it separately or to do without it. If he uses it, he pays for it in the difference between the cash he receives from the lender and the aggregate amount he pays back. Lenders compute the charge in various ways—a percentage per annum discount deducted from the face amount of the loan at the time it is made, a flat dollar amount or a percentage per annum or per month added to the amount loaned, a percentage per month assessed on the current unpaid balance, and a combination of any of these with various fees for credit investigation, insurance, and "services." Practices differ as to rebates of the carrying charge for prepayment by the borrower and additions of further charges for delinquency and refinancing.

The true nature of this system varies with the circumstances of the specific case. If the consumer buys at a true cash price, then the situation is analogous to those just discussed where the complete charge for credit is separated out as a differentiated part of the price. If the consumer buys at a charge price, he will make payments for credit to both retailer and financial agency. Only by vigorous shopping for a true cash price will he transfer the full payment for credit from his retail price to his cash lender's carrying charge. If he buys at the full instalment credit price from the retailer, the carrying charge he pays the cash lender will be an outright waste. The net effect of his transaction thus depends in part not only upon the comparative size of the explicit charge made for credit by cash lenders and other instalment financing agencies, but also upon the shrewdness, persistence, and thoroughness with which the consumer shops for goods.

Individual Variants in Pricing.—Although most carrying charges fall into one or another of the types just described, individual merchants sometimes work out schemes of their own. For example, they may differentiate three prices—cash, charge, and instalment. This is usually done by listing the charge price on the merchandise or in the advertising, granting a discount for "spot cash," and adding a carrying charge for instalment credit. It may also be done by quoting a "spot-cash" price and adding a carrying charge, part of which is returned to the buyer if he pays out on charge-account terms. The author has also found a few jewelry and furniture stores that advertise and list two different prices described as the "cash price" and the "credit price" or the "instalment price." In practice the so-called cash price is likely to be a charge-account price, but the facts can be determined only by investigating the individual case. Another pricing formula adds to the listed price a charge that is rebated if the contract is paid out in accordance with its terms. This is equivalent to quoting the instalment price and adding a

penalty for delinquency that is refunded if the delinquency fails to develop.

Higgling and Bargaining Over Credit Service Charges.—In many establishments that sell consumer durables there is a good deal of higgling and bargaining over prices, the result of which may blur the line between the various types of prices. A hard bargainer may get a considerable price reduction. Since the important factor to him is the aggregate cash outlay, it makes no particular difference whether the price concession is described as a higher value for his trade-in, a reduction in the list price or dealer's margin, a "throw-in" of additional goods or services (provided these are goods and services he really wants), or a reduction in the credit service charge. The possibility that price cuts can take so many forms raises problems in interpreting and comparing the credit charges of individual merchants to which we shall return shortly.

Real and Nominal Charges.—In working with figures on the charges for credit service, one must make sure that he has the real rather than some nominal charge. The real charge is the difference between what the customer pays for a given "bundle" of goods and services, credit included, and what he would have paid for the same "bundle," excluding credit, in a spot-cash transaction.[3] The comparison may be between prices in a given store, or between what the customer pays and the best cash price available to him in the market, or between the best instalment price and the best cash price available to him in the market. Any of these real prices is difficult to determine, but those covering the entire market are particularly so. This is unfortunate because, as we shall see in Chapter 12, when we consider interest formulas full market comparisons alone permit computation of true interest. Any other comparison is likely to cause one to attribute to the instalment charge what is really the consequence of the buyer's failure to shop for the best price obtainable.

The inaccuracies will be enlarged if the comparison uses records of advertised credit plans or contractual credit plans without making allowance for the effects of bargaining. Many stores give "cash" discounts to aggressive shoppers, and the specific charge they make for credit often varies from buyer to buyer. In other words, not only are credit terms unstandardized by trades or communities, they are not even standardized within individual stores. Sales finance companies in the automobile business, for example, have long been criticized for providing several rate charts, so as to permit the dealer to vary his charge

[3] The problem of delimiting the "bundle" in a retail transaction is discussed further in Chapter 12.

from customer to customer. The situation is complicated further by the presence of trade-ins, which are most important in the automobile business. By manipulating the credit charge the dealer can sometimes make fictitiously large the value of the used car taken in trade. Inclusion within the charge of packs, rebates, kickbacks, reserves, and fees, permits the dealer to dicker over any part of the aggregate price he finds it expedient to touch. He uses this situation much as he uses the system under which a manufacturer establishes fictitiously high resale prices so as to permit the dealer to offer a trade-in value on a used item that is virtually worthless. Similar ends can be served by adding charges for fictitious services, such as insurance that is not taken out, or by making the charges levied for real services substantially larger than the cost of providing them.

Contractual and Collected Charges.—An observer of instalment buying must differentiate carefully between the real and the nominal price of credit in another sense. The planned or contractual credit service charge often differs substantially from the charge as it works out in actual payment. How various contingencies are handled often changes the charge substantially. The true charge, therefore, cannot be determined until the contract has been terminated. Many buyers pay out on terms quite different from those specified in the contract. The effects upon their carrying charge may be substantial.

What the borrower finally pays for credit is determined, then, not only by the original contract but also by what the seller or lender does about prepayment and delinquency. The seller may or may not crystallize his behavior into formal, explicitly stated, and uniformly enforced policies. Frequently he leaves the matter to bargaining and adjustment in individual cases. There is no uniformity of practice either as among sellers and lenders or as among customers of any one agency. Retailers, cash lenders, and finance companies differ widely in what they do about rebates for repayment and charges for delinquency.

Since prepayment is quite exceptional, whereas some degree of delinquency is quite common, rebates have considerably less importance in practice than the policy of the seller or lender concerning charges for delinquency. If the seller assumes, in fixing his rates, that the instalment buyer or borrower is going to pay out precisely on schedule, charges for delinquency are in order. As we saw in Chapter 7, however, the author's interviews suggest that most instalment sellers and lenders expect some degree of delinquency as the normal and allow for it in their cost computations. Sellers and lenders often have the legal right to charge additional interest or fees; in practice they rarely do so. As a matter of routine some merchants add such charges to delinquent

accounts. Some even recompute accounts from time to time and send refinancing statements to the buyer, but they commonly use the computed penalty as a bargaining point in collecting rather than as something they really intend to collect.

Cash lenders, and particularly commercial banks, apparently use delinquency fees more commonly than other agencies of consumer credit. These fees may be a percentage per annum, a flat fee for each special collection notice sent out, a fee for each delinquency of more than so many days, or a fee for each telephone call or visit from an adjuster or collector. Even banks hesitate actually to collect these fees. Not only is it often difficult to collect additional fees from debtors who are already delinquent, but there is a serious danger of losing good will if the creditor is too insistent. The creditor also runs the risk of giving the debtor the idea that no one objects to delinquency if the special fees are paid, an idea which is not usually true.

Important though both rebates and delinquency fees are in determining what the instalment privilege actually costs, they can have only an indirect effect in the bargaining. It is doubtful whether many consumers plan their courses of payment with very specific ideas concerning the extent to which they will run over the contractual term. Almost certainly, however, the reputation of the various agencies available to them concerning their dealing with these contingencies will affect their choices. A reputation for fair dealing with customers who run into difficulty has a competitive value in this business. Many customers apparently prefer to pay a seemingly higher charge in order to deal with retailers whom they know and trust rather than with distant financial agencies whose relations with them must be impersonal at best and may be callous and unscrupulous at worst. The monetary value of this factor is not easily measured, but it is an important part of what the customer buys in the transaction.

Relations of Cost to Charges in Financing Agencies.—The procedures instalment sellers use in setting their credit service charges have not been thoroughly explored. There are difficult and controversial problems to be answered. What cost factors do instalment sellers take into account in setting their charges? How do they distribute these costs as between instalment buyers and other customers? How do they distribute the charges they make for instalment credit among individual customers?

Such questions are somewhat easier to answer for specialized financial agencies than for instalment retailers. These agencies must cover all their costs in their credit operations if they are to earn their profits. The principal constituent items of cost are the same for all types of

agency, differing only in relative size and importance.[4] These items include the cost of the money the agency uses, losses from bad debts, and administrative costs.

Agencies that make relatively small loans directly to consumers tend to pay somewhat higher interest for their funds than those that lend to intermediary agencies. Their losses are probably no larger, since these are determined more by credit policies than by size or type of operation. Their administrative costs tend to be much larger. The primary reason for this is that many administrative costs are relatively fixed per loan or transaction, so that a lending organization whose loans are small will necessarily have a higher expense ratio than one which lends in relatively large units.

The charge will also vary in size according to the number of extra items it includes, such as insurance, reserves, and packs. These items are particularly conspicuous among sales finance companies. Plummer and Young calculated from data collected by the Federal Trade Commission for approximately 60,000 automobile transactions in 1936–1938 that these items averaged close to one half of the total charge made for financing new cars by sales finance companies and 25 to 35 per cent of that on used cars.[5]

Whatever the specific costs and their size may be, they must be covered in the charge. Agencies will differ chiefly in the ways they allocate these costs between loans made directly to consumers and loans made to consumers through other agencies, among individual loans differing in size and other significant characteristics, and between the agency's consumer financing business and its other operations. These differences in policy are reflected both in the over-all size of their charges and in variations among them as regards the ways their rates combine flat dollar-and-cent fees and percentage items.

Relation of Cost to Charges in Retailing.—Retail merchants have a more complicated problem in relating their charges to their costs because credit is only one among many services they sell. Merchants disagree, as do students, concerning the extent to which sellers should isolate this one service and make its price carry its full cost, assuming that they can compute that cost accurately. Retailers who sell almost exclusively on instalments and accept other transactions merely as an accommodation feel no pressure to separate out the costs of extending credit for special attention in pricing. Retailers who seek both cash and credit buyers are

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[4] These points are discussed in some detail for small loan agencies by M. R. Neifeld, "The Anatomy of the Interest Rate", in J. H. Cover, *Financing the Consumer*, pp. 103–112. See also Chapter 18 for a discussion of the more controversial factors of cost and their measurement in instalment selling.

[5] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 205-207.

under such pressure, but respond to the pressure with a great many different reactions.

Some merchants hold that both cash and credit buyers benefit from reductions in cost made possible by the increase in sales volume resulting from instalment selling. They see no reason why the benefit should go to both cash and credit buyers, whereas the cost should be charged only to credit buyers. Some of these merchants, but not all of them, argue further that because of the increase in volume it gets from selling on credit, a store can actually give credit prices competitive with cash prices elsewhere. They accordingly see no reason for assessing any carrying charge at all.

Here the pricing problem becomes a variant of that raised by any one-price system. The merchant must maintain a satisfactory balance between the advantages of quoting one price, while letting each customer select whatever assortment of services he will from the store's offering, and meeting the competition of other merchants who offer their customers fewer services in return for a concession in the price quoted. What the instalment merchant can do will depend largely upon the validity of his assumption that his volume can be held at credit prices or that his costs can be held to those of cash stores. Should his competitors drain off a considerable volume at cash or charge prices, with a carrying charge for instalments, he will probably have to price his goods and credit separately. This is true especially in selling goods bearing a particular brand, where the shopper is not confused in his price comparisons by difficulties of comparing the qualities of goods.

Problems of Equity in Allocating Costs to Credit and Cash Buyers.—Much of the controversy over the extent to which credit prices should exceed cash prices has to do with questions of equity in the allocation of costs. Some analysts argue that merchants should not charge cash buyers for a service they do not receive.[6] They maintain that transactions should be priced so as to assess against each type of purchase the costs that it imposes upon the store. Even though the merchant cannot compute exactly the full cost of any one type, such as instalment buying, the argument runs, he can make a fairly close estimate or at least add up certain fairly direct costs. These he can assess against instalment buyers alone. This position directly contradicts that of the merchants who argue that savings made possible by credit, through its effects on sales volume, more than offset the direct increases in cost that result from the addition of credit to the retailer's services.

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[6] See, for example, W. L. White, "The Cost to Business and the Charge to the Consumer," in Cover, *Financing the Consumer,* especially pp. 94, 95. White's argument is directed primarily to open-book credit, but applies even more forcefully to instalment credit. It should be noted, of course, that a similar argument can be made for any retail service.

The differences in conclusion arise chiefly from differences in the underlying assumptions, and particularly in the assumptions made as to the period it is proper to consider in the analysis. Over any given period in an established store with an established credit trade, certain direct and indirect costs can be attributed to the credit operation. It can be argued plausibly that these units of sale, since they are responsible for the costs, should be required to pay an appropriate differential in price. The opposing point of view looks not to the current situation but to the forces that brought it into existence, and to what would happen if the credit service were dropped. It puts emphasis upon the increments of sales that can be attributed to credit and to increases and decreases of unit cost that go with these increments. If credit makes possible increments in volume without proportionate additions to cost, it should get credit for the resultant decrease in unit cost as well as be charged for any direct increase in expense it occasions.

Either line of argument is valid under the given assumptions. The most effective test probably is to leave the outcome to competition. Over the long term it is not likely that customers who want only "cash services" will pay merchants "credit prices" if competing merchants can profitably sell to them at "cash prices." The spread during the last twenty-five years of the system of charging separately for credit would seem to support the idea that many merchants can profitably divide their customers into the two classes. Perhaps the failure of some stores to adopt the policy should be attributed to the failure of competition to catch up with them as yet.

Closely related to the foregoing is the argument that from the retailer's point of view (as well as from that of the consumer) the price of credit should cover its cost. This amounts to arguing that, if a store decides to offer credit, it should price the service in such a way as to get a profit out of it specifically. In practice this argument is often modified to say that carrying charges should cover at least the retailer's direct, out-of-pocket expense.

This point of view has exerted some influence in the establishment of credit service charges, although it seems clear that very few merchants have made careful studies of the direct or indirect costs of credit. The principle is of doubtful validity. No continuing business can expect to do every unit of its trade at a profit. Some business must be accepted at a loss because policies have to be mapped out to meet average situations, or because particular transactions contribute indirectly to profits made elsewhere in the business or provide overhead that would otherwise be lost.[7]

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[7] Further aspects of costs in instalment retailing, and especially of the end result in profits, are considered in Chapter 18.

Custom and Convenience in Setting Charges.—In the ordinary, small retail store, imitation, custom, convenience, and market strategy probably have more influence in setting rates than any reasoning about costs. The most widely quoted charge long has been 6 per cent per year on the original unpaid balance. There is no reason to suppose that this figure measures very closely the difference in cost between instalment sales and either cash sales or charge-account sales.

The author's interviews suggest that some merchants like the 6 per cent plan because by long but inaccurate tradition 6 per cent is widely accepted as a fair bank interest rate. The objections of critics that resulted in the Federal Trade Commission's prohibiting the 6 per cent plan in automobile financing, as noted in Chapter 8, grew precisely out of this sort of misunderstanding by buyers. It is also worth noting that a carrying charge of 6 per cent per year or one half of one per cent per month can be computed very easily. Almost any clerk can be trained to find the monthly charge accurately if all he has to do is divide the price or the unpaid balance by 2 and move the decimal point two digits to the left. Multiplied by the number of months the contract is scheduled to run, this procedure gives the aggregate carrying charge to be filled in on the contract or ledger card.

Quantitative Distribution of Carrying Charges Among Retailers.—Available statistics do not give accurate quantitative measures of the extent to which retailers use the various ways of quoting carrying charges, the common ranges of either nominal or real rates, and the extent to which rates tend to cluster about particular points along the range. For what they may be worth, however, such statistics as are available have been assembled and will be presented here. Whatever their faults may be, they indicate clearly enough a complete lack of uniformity among instalment sellers as regards either the forms or the amounts of their carrying charges.

The figures obtained by the present writer in his own interviews with retail merchants are of some interest as a starting point, although they do not pretend to cover a fully representative sample of retail instalment pricing. It should also be noted that these are quoted rather than collected rates. Many of these merchants quoted an instalment price with no discounts or rebates for shorter terms. Of the merchants who quoted any carrying charge at all, about half quoted an open-credit price plus a percentage per month on the original unpaid balance, and rebated the carrying charge for payment within the open-credit period. Where a percentage per month was added to the original unpaid balance, it ranged from one quarter of one per cent to one per cent. The period within which the store would make a full rebate of the carrying charge

ranged from 30 to 180 days. In both instances, however, a tendency to cluster at particular values was apparent. Thus by far the most widely quoted carrying charge was one half of one per cent of the original unpaid balance for each month (or 6 per cent for each year) of the contractual payment period. Similarly, 90 days was by far the most common period set for acceptance of payment at the base price without additional charge. A few merchants explicitly quoted an instalment price plus some charge that was deductible from the last payment if the buyer met the terms of his contract as written.

Many of these merchants added carrying charges in other forms and at other rates. Some of them added a flat percentage ranging from 6 to 11 per cent to the original unpaid balance, with a minimum of from thirty cents to two dollars for the charge. Some of those who added a flat percentage set a maximum limit on the repayment period so as to restrict the amount of service given for the specific charge. Others added six tenths to three fourths of one per cent per month of the scheduled repayment period onto the original full price, or 5 per cent or so flat to the total price instead of the unpaid balance, or 2½ per cent flat of the original unpaid balance plus one half of one per cent per month of the payment period, or $1.00 to $1.25 flat.

Where percentage figures were used, they tended to cluster around 6 per cent. The range from 5 per cent to 7.2 per cent (usually quoted as six tenths of one per cent per month) per annum included all except a very few extreme cases. The few merchants interviewed, who sold on the basis of the instalment price minus a discount for "cash," quoted a range of 5 to 20 per cent but they did not always make clear whether the "cash" price was true spot cash or the charge-account price. Several merchants said that if pressed by the customer they would give a discount of 2 per cent or more from their ostensible cash price, since they add one half of one per cent per month to the original unpaid balance for instalment terms, i.e., terms of more than 30 to 90 days.

Quantitative Distribution of Credit Service Charges Among Financing Agencies.—For the credit service charges of agencies other than retail merchants, more meaningful statistical data are available, but they are still fragmentary. Chapman, investigating the charges made by commercial banks, found that 170 out of 594 banks reporting (or 28.6 per cent) charged service or investigation fees. These were flat fees per loan ranging from less than $1 to $5; percentages of the principal ranging from 1 to "over 2" per cent, or the "actual cost" of the investigation. A substantial but unspecified percentage of the banks also levied fines for delinquencies in payment. These ranged from 2 to 15 per cent of the delinquent payment, from 25 cents to $1 per delin-

TABLE 32

COST OF INSTALMENT LOANS FROM VARIOUS CREDIT AGENCIES IN NEW YORK CITY, AND RATES OF INTEREST CHARGED BY EACH

	Amount of Loan	Deductions		Cash Received	Actual Charges[a]	
		Interest	Service Charge		Annual Rate on Balances	Amount
					Per Cent	
Municipal Credit Union	$120.00	$3.60	None	$116.40	5.7	$ 3.60
Municipal Credit Union	120.00	None	None	120.00	6.0	3.90
National City Bank, Personal Loan Department	120.00	3.60	None	116.40	5.7	3.60
Manufacturers Trust Co., Personal Loan Department	120.00	6.00	None	114.00	9.72	6.00[c]
Bank of Manhattan Co., Personal Loan Department	120.00	None	None	120.00	11.78	7.64[c]
Amalgamated Bank, Personal Loan Department	120.00	7.20	None	112.80	11.78	7.20
Morris Plan Industrial Bank	120.00	7.20	$2.40	110.40	16.05	9.60
Modern Industrial Bank	120.00	7.20	2.40	110.40	16.05	9.60
Household Finance Corporation:						
New York City Teachers	120.00	None	None	120.00	24.0	15.60
Others	120.00	None	None	120.00	36.0[b]	23.40

[a] Computed in accordance with the "constant ratio" formula of the State Banking Department.
[b] On balances over $150, legal rate is 2½ per cent.
[c] Includes life insurance.
Source: P. Blanshard, *Report to the Mayor on Garnishment Executions Against City Employees*, p. 25.

quent payment, or from 25 to 50 cents per notice. A few banks graduated the fine according to the length of the delinquency. Chapman found that, among the banks studied, 6 per cent of their income on consumer loans came from these fees and fines. The remainder came from the interest or discount.[8]

That the over-all charge varies widely among cash lenders, just as it does among retailers, is shown in Table 32. Taking a note of $120 payable in 12 months as a standard transaction, the table shows that the amount of cash actually received by the borrower from eight New York lenders varied from $110.40 to $120. The cost to the borrower was then computed as a percentage per annum on the declining balance, of which the borrower had the use in accordance with the so-called "constant ratio" formula.[9] Thus computed, the interest, which included service charges but not delinquency fines, ran from a low of 5.7 per cent in the Municipal Credit Union operated by employees of New York City and the personal loan department of the National City Bank to a high of 36.0 per cent charged some of its customers by the Household Finance Corporation. Particularly interesting is the wide range of the rates (4.7 to 11.78 per cent) charged by the four commercial banks that were supposedly in direct competition with each other.

Misleading Statistics on Carrying Charges.—Superficially, even more striking is the range of charges presented by L. R. Foster in Table 33. Foster gives no information as to whether these are quoted or col-

TABLE 33

RATES ON CONSUMER CREDIT

	Common Charge	Range of Charges
Savings Bank Accounts	–	3–6
Building and Loan Association Shares	6	6–12
Insurance Policies	5	3–6
Credit Unions	12	6–18
Personal Loan Departments of Banks	12	7–23
Remedial Loan Association (Pledges)	–	9–36
Remedial Loan Association (Chattel Mortgages and Co-maker Notes)	–	15–30
Industrial Banks	17	12–34
Pawnshops	36	24–120
Personal Finance Companies	36	30–42
Instalment Sellers and Finance Companies	–	0–500
Illegal Lenders	240	72–1200

Source: L. R. Foster, *Credit for Consumers*, 4th rev. ed., 1942, p. 21. Figures presumably are "true interest." Foster does not describe his formula.

[8] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 14.
[9] See Chapter 12 below for a description of this and other interest formulas.

lected charges, the nature of his sample, the formula he uses to convert the charges of different sellers to comparable rates, or what he means by the "common charge." He apparently intended these figures to be taken as a description of the facts of instalment charges.

If illegal lenders are passed over, Foster finds that the "common charges" of various types of cash lender range from 6 to 36 per cent. This range is virtually the same as that shown in Table 32. The accompanying column on "range of charges" indicates, however, that each of the important types of lender has a considerable range within which individual borrowers will fall.

For instalment sellers and finance companies, Foster computes no "common charge" but gives an enormous range of 0 to 500 per cent, presumably "true interest." Since the credit agencies are listed in ascending order according to the magnitude of their "common charges," the plain implication of Table 33 is that the "common charge" of instalment sellers and finance companies is somewhere between the 36 per cent of the personal finance companies and the 240 per cent of the illegal cash lenders. This is so manifestly false that the table must be considered a prime example of misleading statistics rather than a report on facts. As we shall see in Chapter 12, serious difficulties impede any attempt to compute carrying charges as true interest, but for legitimate sellers it would unquestionably run nearer to 12 or 15 per cent than to the astronomical figure Foster suggests.

One may also express serious doubts as to whether the ranges given are fair. An occasional case may be found in the records of any cash lender or credit seller where exceptional and usually quite justifiable circumstances drive the percentage derived from an interest formula to very high levels. Such cases can always be explained by the particular circumstances and (at least among legitimate lenders) are too exceptional to be included fairly in statistics of this sort.[10] If these extremely high rates of charge are to be included in the statistics at all, obviously they should be included for all types of lender, not for retail stores or finance companies alone, and some evidence should be given as to their quantitative importance.[11]

Indirect Indicators of Charges by Cash Lenders and Finance Companies.—Much more reliable, meaningful, and comprehensive indicators of differences in the charges made by various types of cash lender and finance company may be found in Dauer's compilations of data on loan-

[10] See W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 215–218, for a criticism of similarly questionable data published by the Federal Trade Commission.

[11] The present author has included these figures here despite their obvious shortcomings because they illustrate a type of data often published for laymen. This particular table is from a *Public Affairs Pamphlet* which (according to information from William T. Foster of the Public Affairs Committee) had sold 265,000 copies by December, 1944.

income rates and operating profit for the period from 1929 to 1941.[12] One of his tables shows for each type of agency the income received during each year as a percentage of loans outstanding. The percentages are not strictly comparable among types of agency, since there is some variation in the extent to which income is confined to income on loans and in the ways the loans outstanding are computed. However, the figures give at least a rough indication of the comparative rates of charge of the various agencies and of changes in these rates from the peak of the boom in 1929 through the depths of the subsequent depression, the next boom, the short recession of 1938, and on to the last year before the United States went to war.

By far the highest rates of loan-income throughout this period were received by the personal finance companies whose average year after year held between 25 and 37 per cent and was from two to three times as high as the corresponding averages of the sales finance companies, industrial banks, and credit unions. Evidence on formal rates charged (as in Table 32), indicates that much of the difference was due to a difference in charges for similar loans. The rate of income on loans for commercial banks also computed by Dauer has little significance for present purposes, since consumer loans constitute a very small part of the assets of commercial banks.

Dauer's table also shows that small-loan companies and industrial banks experienced a remarkable steadiness in loan-income throughout the period, whereas sales finance companies experienced a sharp decrease over the period as a whole. There can be little doubt that much of the fall in loan-income of finance companies was due to the fall in rates for the financing of instalment buying, as new capital was attracted to the field. Personal finance companies apparently had not experienced such growth in their competition up to 1941.

Another Dauer table shows the operating profit of the same companies, operating profit being defined to be the return to the company computed as a percentage of total assets after deduction from income of all costs other than the cost of borrowing funds. It is thus a rough measure of what can be called in a meaningful sense the "true interest" paid by the borrowers from these companies. Comparisons must be made with caution, but it seems clear that personal finance companies have consistently achieved higher net profits on their money than any of the other types of lender. The annual figures range from 5.5 to 15.0 per cent of total assets in the various years for these companies. All types of specialized consumer finance agencies achieved strikingly higher profits during these years than the commercial banks, which had losses

12 E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929–1941*, pp. 84, 85 and 129, 130.

in some years and did not rise above 2.7 per cent in any year. This is true even after allowance is made for the sharp reduction in operating profit that took place over the years for all the financing agencies studied.

Figures from Plummer and Young presented in Table 34 tend to

TABLE 34

INDICES OF FINANCE CHARGES AND OF COMBINED INSURANCE AND FINANCE CHARGES ON A HYPOTHETICAL NEW-CAR TRANSACTION, FINANCE CHARGE IN PER CENT OF COMBINED CHARGE, AND INDEX OF THE GROSS TIME PRICE, 1924–1938[a]

Year	Finance Charge[b]	Combined Charge[c]	Finance Charge in Per Cent of Combined Charge	Gross Time Price[d]
1924	105	87	75	99
1925	94	79	74	98
1926	98	108	56	101
1927	105	106	62	101
1928	105	106	62	101
1929	105	106	62	101
1930	105	108	61	101
1931	103	92	69	99
1932	124	122	64	102
1933	124	122	64	102
1934	108	111	61	101
1935	81	94	53	100
1936	80	84	59	99
1937	80	89	56	99
1938	81	93	54	99

[a] Based on an assumed contract, running for twelve months, covering a new $600 automobile with an original unpaid balance amounting to $400, the transactions taking place in Albany, New York. Charges and insurance rates computed as of the end of the year.
[b] Computed from data furnished by a large sales finance company.
[c] Finance charge plus insurance for fire, theft, and, after 1931, collision. Insurance costs computed from manual rates, supplied by the National Automobile Underwriters Association.
[d] $600 plus insurance and finance charge.
Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 219. The original does not give the base of the indices, but apparently it is in each instance the average of the years covered.

confirm the impression given by Dauer's data that charges of sales finance companies decreased somewhat immediately after 1929, rose during the worst years of the depression, then fell sharply during the late 1930's, the trend of the entire period being downward. The finance charges are those of only one large sales finance company, but they probably show year-to-year variations reasonably representative of what was going on in the industry. The insurance charges are computed from manual rates. They apparently fluctuated much less violently than the finance charge proper.

The insurance item is commonly supposed to be a source of profit, especially to the larger companies that find they can charge substantially more than the insurance itself costs them. A very difficult problem to which we shall return at various points in this study is to determine how much of this profit should be counted into the finance charge in computing its "true-interest" equivalent.

CHAPTER 12

PRICING PROBLEMS IN INSTALMENT BUYING

Criticisms of Pricing Practices in Instalment Buying.—The diversity of practice in quoting carrying charges discussed in Chapter 11 has been criticized very severely by many commentators.[1] Some of these criticisms have been inspired or publicized by one small-loan enterprise. This company has aggressively promoted the doctrine that all types of lenders and sellers on instalments should be required to state their charges in the form of a "true interest" computed by the so-called actuarial method (to which we shall come shortly) or some formula that gives a close approximation to the same result. Many other criticisms, however, have been arrived at independently.

Objections to pricing practices in the instalment business fall into three principal types:

1. Carrying charges are so stated that the consumer does not really know what he is buying. The carrying charge, it is argued, should be viewed as interest paid for the use of the seller's or the finance company's money. Charges for insurance, service fees, and extras should be separated out so that the customer can decide whether he really wants these services, and, if so, how much they are worth to him. Packs, rebates, and reserves that return to the dealer indirectly through the carrying charge reductions made in the ostensible price of the goods, or increases made in the ostensible value of the trade-ins, should be eliminated.
2. Carrying charges are so stated that the consumer does not realize the absolute cost of buying on credit. If he wants to know, he cannot readily find out. The more vigorous critics of instalment buying express doubt that consumers would continue to buy on credit as freely as they do if they knew what credit costs them.

[1] See, for example, E. R. A. Seligman, *The Economics of Instalment Selling,* Vol. I, pp. 285–290; W. T. Foster, *Can Consumers Stand the Truth?,* p. 12; J. R. Sprague, *The Romance of Credit,* pp. 161–164; C. Mindel, *Retail Instalment Selling,* pp. 34–37; C. O. Hardy, *Consumer Credit and Its Uses,* p. 51; C. W. Phelps, "Monopolistic and Imperfect Competition in Consumer Loans"; Household Finance Corporation, *Opinions on Charges to Consumers for Small Instalment Loans;* T. H. Yntema in P. F. Douglass, ed., "Consumer Credit," 196, *Annals of the American Academy of Political and Social Science* (March, 1938), pp. 79–85; and G. Haberler, *Consumer Instalment Credit and Economic Fluctuations,* p. 25.

3. Carrying charges are so stated that the consumer who wants to buy on credit finds it difficult to shop intelligently for the best bargain. Price comparisons are extremely difficult if not impossible.

Variations of the "True" Rate Under the 6 Per-cent Plan.—We saw in Chapter 11 that quoted rates tend to cluster at 6 per cent of something or other. Table 35 shows how widely charges that are quoted simply as 6 per cent may vary in practice when recomputed as interest on the declining unpaid balance according to a standard formula. The authors of the report from which this table is drawn present it as evidence that a charge of 6 per cent is seriously misleading. Only one of the transactions examined had a true interest rate of 6 per cent. Only seven had a true interest rate of 10 per cent or less. The remaining 98 ranged upward to 679 per cent.[2]

Although it was computed as part of an attack on "deceptive" or "misleading" practices by instalment sellers, Table 35 is itself misleading in some ways. It does not specify the bases against which 6 per cent was quoted. It does not explain how the absolute amount of the charge, the principal and the length of the credit term, were determined for use in whatever interest formula was applied, although, as we shall see shortly, these three quantities are not self-evident in an instalment sale. It does not explain whether the 105 cases were a representative

TABLE 35

TRUE INTEREST RATES IN 105 INSTALMENT SALES WHERE 6 PER CENT WAS QUOTED AS THE RATE

True Rates[a]	Number of Sales
6	1
7–10	6
11–20	61
21–30	19
31–100	10
101–679	8
Total	105

[a] The original does not give the formula used in computing the true rate. Apparently the authors used the constant-ratio formula to compute the charge as a percentage of the declining unpaid balance.

Source: Massachusetts, *Report of the Committee on Consumer Credit, 1936*, p. 12.

[2] The "true interest" referred to in such tables should not be confused with the economist's concept of "pure interest." "True interest" is intended to reduce charges to a percentage per annum, on the funds actually used by the borrower or credit buyer. The economist uses the term "pure interest" to differentiate one element from all the others that enter into the rates quoted in the money market.

sample of instalment purchases in Massachusetts, a haphazard assortment, or a selected group of "horrible examples." It does not describe the circumstances of the sales so as to permit a judgment whether those with very high rates are anything more than oddities that will appear under any rate formula. It gives no absolute figures that will enable the reader to see whether the high percentage rates have any practical importance, although it is self-evident that on a small purchase paid out over a short period a carrying charge of only 50 cents or a dollar can be a fantastically high annual percentage.

Pricing Practices and Competition in Instalment Selling.—Some economists find in the business of consumer credit an excellent illustration of imperfect or monopolistic competition, partly because of its pricing practices. Phelps summarizes the argument clearly.[3] Although he speaks primarily of cash loans, his remarks apply in large part to instalment selling. Pure competition does not exist in the business of consumer loans, he reasons, because the number of lenders open to the individual consumer usually is small. Competition is imperfect because consumers cannot compare closely the products and prices offered by different lenders or sellers. Comparison of products is made difficult by differentiation as to the type of security the lender is required to put up; the policies and procedures followed by the lender in investigating and granting or declining loans, collecting, setting minimum and maximum limits for amounts to be loaned, and establishing schedules of payment; the legal and social status of the lender; and the personal relations between borrower and lender. Comparison of prices is confused further by the great diversity in methods of quoting charges.

Phelps sees little likelihood that the impurities will be eliminated from the market. In fact, he finds it desirable in some ways that lenders should be few. He also sees little likelihood that many of the imperfections can be removed. He maintains, however, that the effects of these various factors in making charges higher than would prevail in a purely competitive market can be minimized by correcting the one factor that is readily subject to change—the method of quoting charges. If there were established a simple, uniform method of quoting charges, comparisons would be facilitated and at least that element of imperfection in the market would be destroyed.

The Absence of Meaningful Data on the Extent of Consumers' Confusion.—Practically no systematic study has been given by scholars to two big questions of fact upon which such reasoning rests: (1) The extent to which variations in the rates charged instalment buyers merely

[3] C. W. Phelps, "Monopolistic and Imperfect Competition in Consumer Loans."

reflect or correspond to differences in the "product." (2) The ways in which, and extent to which, consumers are confused by rate quotations. Smith, in passing, attributes the wide variation in rates of charge he found for used cars in Ohio at least in part to differences in the class of risks the finance companies would assume.[4] Other writers have not gone even this far. The assumption that buyers are confused in their use of credit is unsupported by evidence even to this extent.

Confidential studies made for individual companies to which the present author has had access give quite superficial attention to these problems. They discover from interviews that many consumers find it confusing to work with any formula for interest rates if it involves a good deal of "figuring," but they make no effective measurement of what the consumer actually does or of the final results for him.

Similarly, although many compilations have been made of data which show how much an outwardly uniform rate of charge varies when recomputed according to some formula for interest, so far as the present author knows no one has made any effort to recompute these still further according to formulas that will allow for differences in the value of the "product" received by the buyer. We have already seen that consumers buy "bundles" of goods and services. A change in the credit charge or the delivery charge or the trade-in value is by no means necessarily a change to the consumer in the price of that particular factor. It may be merely the most convenient way in which to change the price of the "bundle," and may reflect a change in the "bundle" that has nothing directly to do with credit.

Debates Over Methods of Quoting Charges.—Instalment sellers and lenders naturally tend to favor their own practices in the quotation of charges. Those who ordinarily quote an inclusive charge as a percentage per month on the declining unpaid balance (that is, some personal finance companies) argue that it is the only way in which to inform the consumer fully as to what the credit accommodation costs. Those who customarily discount a charge from the original face of the loan and add supplementary fees and fines (such as many commercial and industrial banks) justify their practice on the grounds that discounting is a long-established usage in banking, and that the supplementary charges make it possible to charge each buyer more nearly in accord with the costs he imposes upon the lender. Those who offer credit service in the sale of goods derive a justification for making no distinction between cash and credit prices, or for stating the difference as a lump sum discount or charge, or for basing their charges on the original rather than the declining balance, from the judicial doctrine already cited that

4 T. H. Smith, *The Marketing of Used Automobiles*, pp. 216–219.

holds their credit transaction to be an incident of the sale of goods rather than a loan of money.

Economists who have written about the matter seem to agree that, abstractly considered, the best system is one which computes any charge made for credit as a per cent per month or per annum on the declining unpaid balance. They usually look upon a credit transaction as a loan of money or its equivalent, and they hold that the value of the service can be measured only by taking into account two quantities—the amount loaned and the length of the period for which it is loaned.

We shall have occasion shortly to consider the extent to which these opinions derived from abstract analysis hold up in an actual market. It is necessary to point out, however, that, even if a true rate of interest offers the best indication to consumers of what credit costs, determination of the true interest may be quite difficult in practice. The labor involved is often very large, so that recourse must be had to short-cut formulas that yield only an approximation of the figure sought. Furthermore, before any formula can be used, formidable difficulties must be overcome in determining the quantities to be used in it.

The Difficulty of Computing a "True" Rate of Interest.—All methods used to compute the true interest on a purchase derive basically from the rule that the interest or charge, in dollars, is the principal (i.e., the amount of money, or its equivalent, of which the borrower has the use) multiplied by the rate per unit of time and by the number of units of time during which the money is used.[5] Where the principal, the rate, and the time are known, the charge can be computed as

$$C = prt.$$

Correspondingly, where the absolute amount of the charge, the principal, and the time are known (supposedly the typical situation in consumer instalment buying) the rate can be computed as

$$r = \frac{C}{pt}.$$

If the borrower receives the full amount of the loan and pays the interest along with the principal in one payment at the end of the period, the formula is applied directly to the face of the note as the principal. If the charge is discounted, the amount deducted is treated as charge and the remainder of the face of the note is the principal for use in the formula.

[5] The discussion of interest formulas here given has drawn freely upon C. Mergendahl and L. R. Foster, *One Hundred Problems in Consumer Credit*. This pamphlet offers an admirably simple discussion of the mathematical problems involved in computing "true-interest" equivalents of carrying charges, but it must be used with very great care. The problems and illustrations will give the inexperienced or unwary reader a distorted picture of instalment selling if they are taken to represent typical practices in the trade.

If the debt is repaid in instalments, difficulties arise from the need to divide the successive payments as they are made between principal and interest. At one extreme, each payment can be devoted first to the interest due, with only the remainder being credited against the principal. At the other extreme, each payment can be credited solely against the principal until it has been paid; the interest is paid by the last instalments. Between these extremes lie many plans under which each payment is divided between interest and principal on some predetermined base.

As matters work themselves out, the problem is thus not really to choose between stating true rates and stating false rates, as the terminology might suggest, since most formulas are more or less inaccurate. It is to establish the degrees of inaccuracy that are acceptable when the instalment plan is put to the use for which it is intended.

The Actuarial Method of Computing Rates of Interest.—The most accurate statement of the charge under an instalment contract is obtained by using the actuarial method. This method assumes that the charge is computed on the amount outstanding to the time of first payment. The payment is then applied to the charge first, the remainder being applied to reduction of the principal. A similar computation is made for each successive payment. The last payment extinguishes the principal as well as pays the last unit of carrying charge.

Accurate calculation of the annual rate of charge by the actuarial method involves laborious mathematical procedures. Mergendahl and Foster present a formula for the computation of the amount of each equal payment p when the original unpaid balance B, the rate of charge or interest per payment period c, and the number of payments other than the down payment n are known:

$$p = (p - Bc)(1 + c)^n.$$

Where the other terms are known, this formula can be used to find the approximate value of the rate of charge c by substitution of successive approximations; that is, by trial and error. The authors suggest the use of logarithms to compute powers of $(1 + c)$. What they call the "nominal" annual rate of charge is the rate per period yielded by a formula such as this, multiplied by the number of payment periods in a year. The "effective" annual rate is the rate per period compounded for the number of payment periods in a year.

The Federal Trade Commission refers to these concepts in different terms.[6] It calls the rate of charge worked out under the actuarial

[6] Federal Trade Commission, *Report on the Motor Vehicle Industry*, 1939, Chapter XIX, especially pp. 952 and 956.

method the "implied monthly interest rate." What Mergendahl and Foster call the nominal annual rate, it calls the "conventional" annual rate. The rate worked out by compounding monthly for twelve months at the monthly rate, it refers to as the "implied annual rate of interest."

For quick and accurate calculation of rates and payments by the actuarial method, mathematicians have prepared tables. Consumers will find these neither readily available nor easy to use. The Household Finance Corporation has worked out for distribution to the public a table based on the actuarial method. It permits quick calculation of an annual rate on instalment loans or purchases where the repayment period is not longer than one year. The rate approximates the "nominal" or "conventional" rate of the actuarial method.[7] The present writer has no information as to the extent to which this table has been distributed, or whether any tests have been made concerning how many consumers can and do use the table effectively.

The Constant-Ratio Method of Computing Rates of Interest.—Because the actuarial method is cumbersome in use, methods that give approximately the same results but lend themselves to much quicker calculation are needed. Most frequently used in instalment buying, perhaps, is the constant-ratio method. This assumes that each periodic payment is divided between principal and carrying charge in the ratio of the original unpaid balance to the aggregate carrying charge. The method is summarized in the formula

$$r = \frac{2mC}{B(n+1)},$$

where r is the rate of charge per year expressed as a decimal fraction, m is the number of payment periods in one year, C is the total carrying charge in dollars, B is the original unpaid balance, and n is the number of payments, not counting the down payment.

The Demand for a Universally Applied Formula.—Several more formulas are available. Each introduces some additional refinement into the computation. This is enough, however, to justify Phelps' remark that "only an expert mathematician can. . . . select the cheapest source of credit available to him." [8] Even if the experts agree upon a formula, its use will lie beyond the will, if not the capacity, of most consumers. For these reasons critics of consumer credit commonly argue that the seller or lender should carry the burden. That is, he should be required to state his charges as simple interest on unpaid balances of the principal. In other words, hire mathematicians to compute

[7] Household Finance Corporation, *Consumer Credit Cost Calculator*.

[8] C. W. Phelps, "Monopolistic and Imperfect Competition in Consumer Loans," p. 387.

the true interest (presumably requiring them to agree on a formula for the purpose) and assume that the consumer will understand the results, or that a simple numerical comparison will be adequate for his purposes, even though he does not understand the figures.

Difficulties in Applying Any Formula for True Interest.—No matter how sound its theory may be, any interest formula runs into formidable difficulties when applied to instalment buying. The original unpaid principal, the aggregate amount of the carrying charge, and the length of the repayment term are not always easy to determine in an instalment sale. Difficulties arise from a number of widespread practices in instalment buying and selling.

We have seen in Chapter 11 that most instalment sellers state their prices in one or more of four ways: (1) A spot-cash price plus a charge for credit computed in any one of several ways. (2) An instalment price less a discount for payment on charge-account terms and perhaps an additional discount for spot cash. (3) A charge-account price plus a charge for instalment credit and perhaps with a discount for spot cash. (4) A uniform price for all sales, whether cash, charge, or instalment.[9] The aggregate price for goods, credit, and other services is easily determined as either a contractual or a nominal price set at the time of the sale, or as a real price that has worked itself out over the life of the transaction. How much of the aggregate purchase price is original unpaid balance, and how much is carrying charge, is not so easily determined.

When consideration is restricted to the individual seller and his customer (competing sellers and lenders being ignored), it is customary to take the cash price less the down payment as the principal under the first pricing plan. The credit service charge becomes the difference between the cash price and the aggregate price. This is valid only if the ostensible cash price is really the price at which the merchant would sell the goods for spot cash, including all services except credit that are included in the time sale, and if the ostensible carrying charge is really a charge for credit rather than a conglomerate of charges for credit and for other services as well. The true cash price and the true charge for credit are thus figures nowhere specifically available in the records of

[9] The analysis of credit service charges as interest rates made above could be complicated further by including plans that call for prepayment by the consumer, as under the lay-away plan or where a store accepts deposits against which a consumer may draw at his convenience. In theory the buyer loses interest on these prepayments, and this should be added to the price of the goods unless he receives interest or a price discount or refund from the seller. The true cash price can be computed only by balancing these factors. These additional complications have been omitted from the analysis because they have little importance in practice, since buyers do not in fact sacrifice much interest, and sellers very rarely allow any interest or discounts for prepayment.

many (perhaps most) sales, and must be guessed at for use in interest formulas.

Corresponding difficulties arise under plan (2), where it is customary to take the difference between the price used and some quoted or estimated cash price as the carrying charge. This arrangement actually intensifies the difficulties because ordinarily no cash price is quoted and the line between cash and charge transactions is blurred.

Where the basic price is the charge price explicitly, as in plan (3), or implicitly under any plan, determination of the principal and the carrying charge raises the same problems. In addition, difficulties arise concerning the length of the period during which the buyer has the use of the seller's money for purposes of the interest formula. Stores that charge a percentage per month for instalment credit usually compute the charge for the entire period from time of purchase to time of the final payment contracted for. Management finds this convenient, but a sounder procedure for purposes of measuring interest would seem to be that followed by business houses in computing the interest rates they pay if they fail to take their cash discounts in buying. The units of time counted into the interest formulas should begin at the end of the "free" period for which the seller makes no explicit credit charge. Needless to say, the "free" period must be the true one within which the seller in fact accepts payment without a carrying charge, whatever his announced policy may be. Correspondingly, computation of the real as distinct from the nominal rate must allow for the true elapsed time, any interest, fees, or fines assessed for delinquency, and any irregularities in the schedule of actual payments.

"True" Interest in One-Price Stores.—Under plan (4) special difficulties arise in computing a true interest rate if a firm holds rigorously to its policy of giving no discounts and adding no charges. So long as attention is centered on the single firm, there is no carrying charge. This is one justification for the claim made by many firms using this plan that they make no charge for credit. Since most students of instalment buying seem to be convinced that credit involves a net cost to the seller that must be recovered at the price charged, those who seek a formula by which to compute the credit service charge under such circumstances fall back upon the device of comparing the instalment seller's "credit" price with the "cash" price of a competitor.

This procedure raises serious problems of comparability. Obviously one must reject the most naïve use of this method under which a competitor quotes a "cash" price on what he regards as the most nearly comparable item in his stock. The "cash" price quoted to an investigator may be quite different from what an ordinary consumer would pay

in an actual purchase. Even when every effort is made to eliminate bias, differentiation of product and variation in the retail services offered with a good make complete comparability in any actual market almost impossible.

Furthermore, which particular competitor's quotation is to be taken as the cash price for purposes of the interest formula? The usual answer takes the lowest cash price found by shopping among the instalment seller's competitors. The difference between this "cash" price and the aggregate price for goods and credit charged by an instalment seller is taken as the carrying charge. This obviously stacks the cards against instalment buying by assuming that the cash buyer is an aggressive shopper, whereas the instalment buyer is not. A sounder procedure would be to assume that the best measure of the carrying charge under this formula is the difference between the lowest true cash price available to the buyer and the lowest instalment price available to him. The difference between the lowest instalment price open to him and what he actually pays is the cost of inefficiency in shopping or perhaps the luxury of not bothering about "small" savings.

Under plan (4), then, determination of the "true" rate of interest becomes much more than a problem of devising a formula that gives an acceptable approximation of the actuarial rate by computation from known quantities. Its most serious difficulties arise in devising a procedure for finding and recognizing the quantities themselves in a thoroughly confused market situation. The consumer (or the student who is observing the consumer's behavior) not only must compare the values of goods and services offered by different merchants, but he also must decide how widely and how long the consumer ought to shop for the best buys on credit and for cash.

True Interest in an Entire Market.—Further consideration will suggest, unfortunately, that these difficulties arise not only under plan (4) but under all the plans of price quotation if attention is shifted from the difference between two prices quoted by an individual merchant to the situation in an entire market. If any interest or charge is to be computed under plan (4), as critics of instalment buying insist, this widening of the areas of comparison for other price plans is inescapable. Merchants who price under plan (4) are commonly in competition with those who price under the other plans. This means that one cannot accept as valid the limitation assumed for purposes of analysis, above, that the true interest equivalent of a carrying charge can be computed accurately with comparisons restricted to a store's own cash and credit prices.

If the true principal is to be the lowest cash price available in the market within which the consumer ought to shop, the true credit charge is to be the difference between that price and the lowest instalment price similarly available, and the true time the difference between the full credit period granted for the computed charge and the free one, if any, given by the seller with his lowest cash price—if these are to be the definitions of the terms going into the interest formula, they should obviously apply to all forms of price quotation, not merely to the forms used by firms who proclaim that they make no charge for credit.

Otherwise no fair comparison can be made between the one-price merchant and the two-price or three-price merchant. Adoption of the other alternative—restriction of the comparison to differentials between a firm's own cash and credit prices and to differences between the charges thus computed and the cost of borrowing from cash lenders—leaves the one-price seller in a position most proponents of true interest formulas would consider fallacious. He is left with mathematical evidence that he does in fact make no charge for credit.

Exact Formulas for Inexact Data.—The conclusion to which all this analysis leads is that, however useful it may be for cash loans, the "true-interest" approach has serious limitations when applied to the purchase of goods. In the money markets where credit is a separable product, the system has much to recommend it, even after allowance for the fact that expediency often makes it necessary to accept formulas that give approximations rather than exact statements of the interest rate. In the retail markets for goods, credit is mixed into "bundles" of goods and services whose exact composition varies widely. The consumer cannot or will not shop for each part of the "bundle" separately so as to make up his own aggregate. Here the results of applying commonly accepted interest formulas must be far from exact, and they may be seriously misleading because of their superficial appearance of great exactness.

Until data as precise as the mathematical formulas themselves become available, these formulas must be used with extreme circumspection. Used carefully under appropriate circumstances, they can be helpful. Used carelessly without due attention to their limitations, they may do much harm.

The Relatively Small Importance of Differences in Carrying Charges.—Even if all difficulties of computation were solved so that a cost of credit to the consumer in some meaningful sense could be separated and measured accurately, important difficulties would remain to reduce its usefulness to the consumer in his market setting. The market for consumer durables has many imperfections more important than

the uncertainties of the carrying charge. The primary interest of the instalment buyer lies in the goods and in the aggregate price he must pay if he is to have these goods at the time and place that he wants them. For the vast majority of the purchases made on instalments, the credit service charge is a small part of the total price or a small absolute amount, even when it can be computed as a large percentage of true interest.

Differences in the price of credit offered by different sellers thus are likely to become very insignificant indeed in the bargaining. Table 34 illustrates the situation in a series of indices. Between 1924 and 1938 the finance charge on an automobile fluctuated from a high of 124 to a low of 80. The combined charge for financing and insurance fluctuated between a high of 122 and a low of 79. Despite those very large fluctuations, the gross time price computed on an assumed cash price of $600 held between 98 and 102. In other words, if the cash price of automobiles had remained absolutely stable during these years, fluctuations in the combined finance and insurance charge would have caused only negligible movements in the gross time price.

In fact, of course, the cash price of automobiles fluctuated widely during these years. The small fluctuations due to changes in the finance charge were little more than ripples on a violently fluctuating surface. Variations in the offerings of different sellers and lenders become of very small consequence indeed when superimposed upon the larger movements. This does not mean that they are or should be completely ignored by the careful buyer. It does mean that the return for care in buying credit is commonly quite a small element in the total price situation and warrants the expenditure of only small amounts of effort to make sure that the best bargain is offered.

Limitations Upon the Separability of Goods and Credit.—Another important factor that limits the usefulness of interest formulas is the inability of the consumer to shop separately for each unit of goods and service that go to make up his "bundle." Conceivably, he might buy the main product itself from one seller, the accessories from another, the delivery service from a third, repairs and adjustments from a fourth, credit from a fifth, and so on. In practice, the "bundles" of goods and services sold by the retailers of consumer goods are not completely separable. Only rarely does the buyer have a choice between a true cash price and an instalment price with everything equal other than the amount of the credit service itself. As between stores, the "bundles" offered for cash are likely to vary substantially. Even within one store the "bundle" offered at a cash price may differ substantially from that offered for credit as regards many matters other than credit itself.

This is inevitably true where the ostensible credit charge has been loaded with a variety of noncredit services and costs.

The situation is further complicated by differentiation of the physical products. The consumer cannot be an expert concerning quality in all the goods he needs. Even retailers themselves often have only the most uncertain ideas as to the qualities of the goods they sell, although they do have the advantage of knowing what they paid to manufacturers or wholesalers.

The consumer thus does not have complete flexibility in combining the elements of his purchase. The merchant who offers the lowest price for credit as such, or for goods on a cash basis, may not have the particular brand or style or quality of goods the consumer wants. A lower price for credit cannot by itself compensate for failure to obtain the kind of goods wanted. Furthermore, a lower quotation for credit is not necessarily a lower price for credit, if it is accompanied by a greater risk of severe collection procedures in the event of the buyer's running into financial difficulties, or by systematic collection of fees for adjustments and extensions, or by contacts with unpleasant personnel.

Limitations Upon the Utility of True-Interest Formulas.—This line of reasoning does not render valueless all systems designed to permit more exact measurement and evaluation of credit terms. Any device that introduces a great degree of exactness has utility, even though the extent of its effectiveness is small. The importance of the criticisms lies in other directions. They serve to warn, first, that, put into the market setting where it operates, the true interest method of measuring credit service charges is much less exact and significant than its more enthusiastic proponents seem to think. Second, they indicate the existence of narrow limits beyond which it will not pay the consumer to go in expending effort to determine the costs of credit. If the possible savings are small and likely to be swallowed up in the complexity of pricing by "bundles" at the retail level, it will not be worth much of anyone's time to master and use interest formulas.

For most consumers, these interest formulas would lie beyond their powers. Even a quick application of the formulas derived by others to situations where all the facts are known would lie beyond the capacities of most individuals, who can be taken for granted not to understand much mathematics and to shy away from using what little they do understand. Many consumers would undoubtedly consider the cost of applying the mathematical formulas greater than the cost of some extra dollars or percentage points in the credit charge. Where the quantities themselves can be determined only by energetic shopping and shrewd, rigorous bargaining, the consumer cannot be expected to show much

enthusiasm in the absence of substantial and certain advantages. In refusing to put much time on such matters in the normal market situations, ordinary nonmathematical consumers may be more rational than their critics seem to think.

What the Instalment Buyer Needs to Know.—A substitute prescription to take care of the need of consumers for easy comparisons cannot be written effectively without field studies designed to discover what consumers think, and how they would react to different systems of quoting carrying charges. One may safely conclude, however, that procedures designed for the central money markets will not ordinarily work well in consumer credit. The interest formulas grew out of situations in which small changes in the four elements of the basic equation ($C = prt$) result in the transfer of large sums of money. In the open money markets, and even in financial operations by consumers that involve relatively large sums of money, such as the purchase of houses, life insurance, and annuities, differences of a fraction of one per cent in the interest, or of a day or two in the period of the loan, may be significant. The situation calls for flexible formulas that can be applied quickly to any conceivable combination of specific terms.

An individual consumer in buying durable goods, as we have seen, has much more limited choices. He shops in only a few stores whose goods he compares as best he can. Each store will quote an aggregate gross price including credit for some payment period he regards as suited to his needs. Some (perhaps all) stores will also quote a cash or charge price representing the lowest aggregate for which he can buy the goods with immediate payment. Given the goods, the payment period, and the various credit and cash prices, the consumer would seem to have all the data he needs to answer his two principal questions: "What will it cost me to buy now on credit rather than draw on my savings or wait six or twelve or eighteen months to get this item?" "Of the two or five or six places I have shopped, including a cash lender, which one offers me the lowest aggregate price for cash and credit extended over the repayment period I need?"

Even if the consumer approaches his problem from the basic assumption that he has so much to spend per week or per month rather than that he wants to spend a given aggregate price, it would seem easier to train him to compare the number of payments required in different stores to buy the product he wants than to train him in the use of an interest formula. Differences in the absolute prices, the precise length of the payment period, the size of the last payment, and so on would probably be so small within the limits of the market where he must operate as to have little significance for him. Furthermore, the absolute figures will

normally be small, so that the difference is not likely to mean much, even if it works out as a substantial percentage.

The argument that the individual cannot know what he is paying for credit unless he computes the credit as a per cent per annum also means little in practice. It is difficult to see that a consumer who knows he must add five dollars to the price or wait six months for his radio is any more in the dark as to the choice he must make than the man who is told that he must pay 11.3 per cent per annum on the declining unpaid balance as computed by the actuarial method if he wants immediate possession. The percentage per annum figure is useful primarily to the seller who as an investor presumably wants to know where he can earn the best return on his money.

Ways of Informing the Instalment Buyer.—All this suggests directions in which standardization might move, if it is to be undertaken, in order to make the pricing practices of instalment sellers more meaningful to the average consumer. Such standardization might well take the form of concentration upon a limited number of period lengths in selling, quotation of the difference among instalment, charge, and cash prices in absolute amounts (or possibly in percentages of one of these prices taken as the base), and emphasis upon the number of months required to pay when the consumer is interested primarily in his down payment and specific periodic payments he feels he can afford.

Some tendency toward standardization of repayment periods already exists. Although a customer can buy on terms of, say, 5 or 7 or 11 months, contracts are more likely to be set at some multiple of six months. The tendency for contract lengths to cluster at these intervals is shown most clearly in data assembled by Coppock.[10] Of the 74,095 contracts purchased by the Electric Home and Farm Authority in 1934–1938, inclusive, 98 per cent had written terms exactly in some multiple of six months, and 77.7 per cent had durations of exactly 12, 24 or 36 months. For accounts involving "add-ons," some merchants report that the consumer tends to standardize the amount of the periodic payment rather than the contractual period. Some of the choices to be evaluated by the buyer are thus less complicated in practice than they can be made to seem in abstract analysis. Price lining is another form of standardization that makes it considerably simpler for the consumer to compare the credit offerings of different merchants. He probably will find the goods offered clustering around a limited number of levels. Thus the bases he must use in comparing credit offerings will be considerably fewer than might be thought from a casual survey. Used goods, especially automobiles, present an entirely different situation, but

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10 J. D. Coppock, *Government Agencies of Consumer Instalment Credit*, p. 109.

even here strong efforts have been made toward standardized pricing by make, type, and model year.

All these considerations reveal a basic difficulty impeding analysis of the carrying charge. The analyst needs much more knowledge than he can now get concerning the extent to which the principal items in the interest formulas vary in the open market. Even the staunchest proponent of true-interest formulas will concede that the buyer can learn much of what he needs to know for an intelligent purchase from the dollar amount of the purchase if the original unpaid balance, the repayment period, and the number, size, and frequency of payments offered by different sellers are identical. Although these factors are rarely identical in a literal sense, it is entirely possible that in many purchases, possibly even in the overwhelming majority of purchases, the differences among the offerings of different sellers are so small as to make the expenditure of any considerable effort to compare them fruitless. If an investigation should show that in many or even most purchases the differences are significantly large, it still does not follow automatically that the solution lies in trying to popularize the use of mathematical computations that appear complicated to the ordinary consumer. The answer may lie, rather, in working to standardize the terms of the transaction in such ways as to make the use of any formula unnecessary.

CHAPTER 13

CREDIT TERMS

The Significance of Credit Terms.—Although usage differs, the size of the down payment required, the size of each periodic payment, and the length of the repayment period constitute what is ordinarily called the "terms" under any instalment contract. In the terms they quote, instalment sellers exhibit great diversity of practice, procedure, and policy. Both retail trades as a whole, and individual retailers within particular trades, differ widely not only in the terms their advertisements offer but also in those actually extended. Individual stores also vary their terms for different goods or at different times.

Because of this great diversity in practice, an understanding of instalment buying entails some inquiry concerning the ranges within which retailers commonly hold terms, any trends that become discernible as one looks back over the history of the business, and the factors that influence retailers in setting their terms. The inquiry is important because the significance of instalment buying as an influence upon economic stability turns in part upon the amount of credit extended, and this in turn depends partly upon the down payment and the repayment period. It is important also because some of the most vigorous controversies concerning instalment buying have raged over arguments as to what is "sound" and what is "not sound" in credit terms. Little in instalment buying has aroused more severe criticism by business men themselves than the development of what is sometimes called competition in terms. Finally, an inquiry into terms and their development is important because Federal controls during the war concentrated upon minimum down payments, minimum periodic payments, and maximum contract periods. The Federal Reserve Board found in the control of terms a tool with which it believes it can exert considerable influence upon the amount of new purchasing power fed into the country's monetary stock through instalment buying. It aggressively sought this tool as one of its permanent powers to be used in controlling the ebb and flow of general business.

The Interpretation of Statistics on Terms.—Conclusions as to the course of terms during the development of instalment buying must be

based upon very limited knowledge. Statistics covering the years since the first world war have serious shortcomings. Those for the preceding century are virtually nonexistent. Even for the most distant periods within the memories of merchants still alive we have only sweeping and far from reliable generalizations: "We used to sell pianos for nothing down, on terms up to three years." "In 1907, when I started retailing, we never sold furniture for less than one third down or gave longer than twelve months to pay."

In interpreting records of past development, not only must generalizations of this sort be avoided; the difference between records of what was offered and records of what was sold must be kept in mind. We already have seen that merchants may offer extremely generous terms but grant them to few customers. Advertisements of "easy credit" must therefore be taken as evidence more of how trade is promoted than of how trade is done.

Furthermore, statistics on terms may distort the economic facts by failure to allow for refinancing. A purchaser who pays a delinquent instalment purchase contract by arranging a cash instalment loan really extends his terms; but the fact does not show up as such in the statistics. Similarly, a customer who adds to an outstanding contract, consolidating the two accounts, confuses the facts as to terms. The issue is drawn most clearly in cash loans, where the period of an individual loan may run between, say, 8 and 12 months, whereas the total period of the consumer's indebtedness (thanks to extensions and refinancing) may run between 26 and 29 months.[1] Instalment purchase contracts are not ordinarily refinanced and extended in this way. The difference in practice must be kept in mind, especially when comparing terms of instalment sellers and instalment lenders.

Credit Terms Prior to World War I.—Nugent, using such records as he could find in a careful search, sums up the first century of terms under instalment buying by remarking that "during the long secular growth of consumer's capital financing prior to 1929, credit terms appear to have been gradually liberalized."[2] He gives no figures to make the generalization specific. The only detailed statistical analysis he finds is one of 10,935 purchase-money liens filed in Minneapolis in 1893. The purchase price of the goods in these transactions aggregated $773,000. The aggregate down payment was $111,000 or 14.4 per cent of the purchase price. For all the goods, the payment period averaged 5.35 months, but for musical instruments (presumably pianos and or-

[1] R. A. Young, *Personal Finance Companies and Their Credit Practices,* p. 4.
[2] R. Nugent, *Consumer Credit and Economic Stability,* p. 136.

gans) the average was about two years.[3] Nugent does not make clear whether these are contractual or paid terms.

Mussey, writing of the instalment business in New York City around 1900, reports that the "best firms" ordinarily required a down payment of at least 10 per cent and wrote contracts for a maximum of eighteen months. He adds that actual payment periods on time accounts frequently ran much longer.[4] Seligman gives the same figures, adding that the average unit sale on these terms in furniture stores was between $75 and $100, but that individual sales ranged from five to several thousand dollars. At about the same period a sewing machine selling for $25 to $35 could be bought for as little as one dollar down and fifty cents a week. High-priced pianos sold for not less than one third down with subsequent payments extended over two or three years, but at least one department store advertised a $150 piano for $5 down and a dollar a week or virtually three years to pay.[5] Sears, Roebuck & Company in 1915 offered "high-grade" pianos at $5 a month.[6] In the automobile business, Seligman reports, terms were first established at one third to one half down and about a year to pay, but down payments soon began to fall and payment periods to grow longer under the impetus of competition.[7]

Credit Terms Between the Wars.—For the interval between the two world wars, better statistics become available. These reveal a tendency for typical down payments to fall and typical repayment periods to lengthen, especially so in the depression years following 1929. Table 36 shows what happened in the sale of goods other than automobiles between 1925 and 1938. Down payments tended to settle at around 10 per cent under "typical" contracts. Contract lengths tended to become standardized at a year or a year and a half for household goods, refrigerators being the principal exception. Since these are contract terms and collections normally will fall behind the agreement, the true length of the credit period presumably is somewhat understated in tables of this sort.

The levels at which terms had settled by 1938 were considerably more generous than in 1925. In 1938 a down payment of 10 per cent had become typical for all these goods, rather than exceptionally generous. Contract lengths had achieved a considerable degree of uniformity near the upper levels of 1925, but refrigerators had gone well beyond the most generous typical terms of 1925. As we shall see shortly, some commentators attribute this development to the influence

[3] *Ibid.*, p. 70.
[4] H. R. Mussey, *The "Fake" Instalment Business*, pp. 12, 13.
[5] E. R. A. Seligman, *The Economics of Instalment Selling*, Vol. I, pp. 15–18.
[6] D. L. Cohn, *The Good Old Days*, p. 524.
[7] Seligman, *op. cit.*, Vol. I, p. 58.

of Government agencies in encouraging terms that ran up to five years, but the relatively large unit values and the long life of major appliances undoubtedly played important parts in the change. Sellers of such goods as radios and jewelry, experimenting in unexplored fields, found that they could safely grant terms comparable to those used for furniture, and thus hold the instalment to amounts that represented a very small drain on the buyers' pay checks while substantially increasing the unit sale.

TABLE 36

TYPICAL CONTRACT TERMS IN THE FINANCING OF SEVEN DIFFERENT COMMODITIES, 1925 AND 1938

Commodity	1925[a]		1938[b]	
	Down Payment (Per Cent)	Length of Contract (Month)	Down Payment (Per Cent)	Length of Contract (Months)
Furniture................	15	18	10	12 & 18
Jewelry-store goods.......	20	10	10	10 & 12
Radios..................	25	6	10	12 & 18
Refrigerators.............	15	18	10	24 & 30
Sewing machines.........	10	18	10[c]	18[c]
Vacuum cleaners..........	15	9	10	12 & 18
Washing machines........	10	12	10	12 & 18

[a] From Milan V. Ayers, "Installment Selling and Its Financing," unpublished pamphle (1926).
[b] From M. L. Merriam, *Retail Credit Survey, 1938*, Marketing Research Division, Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce.
[c] From J. Anton Hagios, "Credit Terms as an Element in Merchandising Competition," an address before the American Marketing Association, December 28, 1939.
Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 147.

A strong tendency for retail trades to extend by diversification into overlapping operations played some part in moving terms toward a greater degree of uniformity. All of these goods are sold to some extent in "furniture" stores. Many "jewelry" stores sell radios and the smaller types of electrical appliances. Department and mail-order stores handle every kind of consumer durable except automobiles, and during the interwar years steadily expanded their use of the instalment system. Pressure from customers and employees for uniformity, and competitive pressure from stores with overlapping merchandise but different terms, both were in the direction of uniformity.

Controversies Over Terms Between Department and Specialty Stores.—Some of the heat generated in the accompanying controversy over terms between retailers who had sold on instalments for genera-

tions and newcomers to the field undoubtedly grew out of this extension of the operations of the two groups into each other's field. Some department stores have long granted very liberal terms, but the most influential ones moved into consumer durables with an experience predominantly in charge-account sales of soft goods. Instalment retailers moved into soft goods with an experience predominantly in instalment credit. Inevitably they disagreed as to what is and what is not "sound" credit. It is noteworthy that, in the end, terms for household goods settled near levels characteristic of furniture and sewing machines in 1925. Consumers have bought furniture and sewing machines on instalments for a century or more. Sewing machines have been marketed on instalments throughout the world. If there is anything such as a natural level toward which terms tend to settle, it should have made its appearance in these goods. When the Federal Reserve Board instituted formal controls in 1941 it reversed the market's decision abruptly. In so doing, by design or by coincidence, it took the side of the conservative department stores' credit men in the controversy, and has found itself subject to severe attack ever since.

Department stores face many managerial difficulties in setting terms appropriate to each of their many lines of goods. One survey made in 1935 found that only 10 per cent of the department stores who answered a questionnaire gave terms of more than one year on items of women's and men's apparel, but 75 per cent gave terms of more than one year on furniture, housewares, ranges, and musical instruments, and 55 per cent gave terms of two years or more on electric refrigerators. Diversity also characterized the percentage of down payment required.

Relaxation of Terms on Automobiles.—That the automobile industry also relaxed its terms during the interwar period is made evident by the available data. In 1924 many critics felt that any paper providing for a down payment including trade-in of less than one third on a new car or 40 per cent on a used car was substandard, as was paper with a maturity of more than twelve months. Weiss cites figures to show that between 1929 and 1937 the proportion of substandard paper as thus defined increased sharply. In 1929 only 14.9 per cent of the automobile paper had a repayment period of more than twelve months; in 1937, 68 per cent. As regards the down payment, only 8 per cent of the automobile paper written in 1929 was substandard; in 1935, 34.1 per cent. Subsequently down payments strengthened, but in 1937 the proportion of the substandard paper was still 23.3 per cent.[8]

[8] J. D. Weiss, "Installment Selling—A Critical View," 17, *Harvard Business Review* (Autumn, 1938), p. 96. See also W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices,* p. 143.

TABLE 37

PERCENTAGE DISTRIBUTION OF AUTOMOBILE INSTALMENT PAPER OF REPORTING SALES FINANCE COMPANIES, 1936–1938, BY LENGTH OF CONTRACT[a]

Length of Contract (In months)	New Cars			Used Cars			All Cars		
	1936	1937	1938	1936	1937	1938	1936	1937	1938
1–12	28	22	28	65	47	49	41	32	38
13–18	45	34	47	32	48	49	40	40	48
19–24	25	39	25	3	4	2	17	25	14
Over 24	2	5	b	b	1	b	2	3	b
Total	100	100	100	100	100	100	100	100	100

[a] Taken from the leaflet of the National Association of Sales Finance Companies, *Composite Experience of Sales Finance Companies and Automobile Dealers, 1938*, covering about 20 per cent of the dollar volume of automobiles financed by all automobile sales finance companies.
[b] Less than 0.5 per cent.

Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 144.

The percentage of down payment, it may be noted, is not strictly comparable as between automobiles and other goods. An automobile buyer who trades in his old car often expends comparatively little cash. One large sales finance company computed that the true cash down payment on cars it financed averaged only 9 per cent of the cash price. The down payment including trades averaged 45 per cent on new cars and 40 per cent on used cars.[9] It may well be, therefore, that the percentage paid down in cash on the new values acquired by car buyers, as contrasted with what they already own, averages little or no larger than that paid on other consumers' durables.

Table 37 shows the relative importance of different repayment periods in automobile sales financed by finance companies in 1936–1938. Terms beyond eighteen months were given for few used cars, but for many new ones. Terms lengthened substantially in 1937, especially for used cars. This lengthening of terms in 1937 is associated with sharply expanding sales (whether as cause, effect, or corollary remains to be determined). When terms tightened again in 1938, they did so much more for new than for used cars. The industry could cut its offerings of new cars promptly, but had to wait for the used ones to wear out and to resell them in the meantime.

Table 38 gives a more detailed illustration of how automobile terms worked themselves out on the average in the middle 1930's. The "cash" price of the cars financed by one company in 1933–1936 averaged $534; the average down payment, including trade-in, 42 per cent. The combined finance and insurance charge averaged $58, which represents 11 per cent of the cash price, but 18.6 per cent of the original unpaid balance. On the assumption that the finance charge was 60 per cent of the combined charge,[10] the finance charge proper was $34.80. This is 11.2 per cent of the original unpaid balance,not counting insurance, and 10.3 per cent of the original unpaid balance, including insurance. On the basis of the constant-ratio formula and with all the items taken at face value, this works out as a true interest of 17.2 per cent per annum on the average amount of credit extended, not counting the insurance premium, or 16.0 per cent per annum on the average credit, including the insurance premium.

As between new and used cars, the difference was striking. Computed in the same way, the finance charge proper for new cars was 9.9 per cent, and for used cars it was 13.6 per cent of the original unpaid balance, not counting insurance, or 9.3 per cent and 12.5 per cent of the original unpaid balance, including insurance. These work out as 13.5

[9] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 140.

[10] See Table 34.

TABLE 38

AVERAGE SIZE AND TERMS OF AUTOMOBILE CONTRACTS, ONE SALES FINANCE COMPANY, 1933–1936

	New Cars		Used Cars		All Cars	
Cash selling price	$809	100%	$314	100%	$534	100%
Down payment	344	43	125	40	222	42
Original unpaid balance	465	57	189	60	312	58
Combined finance charge and insurance premium	77	10	43	14	58	11
Amount of note	542	67	232	74	370	69
Monthly payment	32	4	18	6	25	5
Length of contract	16.7 mo.		13.0 mo.		14.6 mo.	

Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 160.

TABLE 39

TYPICAL DOWN PAYMENTS, FURNITURE STORES, 1934–1946

Year	Large	Medium	Small
1934	–	11.2[a]	–
1935	–	10.5[a]	–
1936	–	10.4[a]	–
1937	9.47	9.45	15.10
1938	9.50	9.76	9.85
1939	9.00	9.44	11.90
1940	8.75	9.10	10.55
1941	11.60	11.87	15.30
1942	24.68	20.72	25.00
1943	29.08	27.33	[b]
1944	29.50	30.47	[b]
1945	30.15	27.75	[b]
1946	30.65	30.95	[b]

[a] Data for 1934, 1935, and 1936 not classified by size of store.

[b] Not available.

Source: Annual reports of the National Retail Furniture Association on operating experiences of retail furniture stores. The figure obtained from each store is the ratio of total down payments received during the year to total net sales on time during the year. Cash sales are excluded. The "typical" ratio is the median. The stores reporting are not identical from year to year. Large stores have annual net sales of more than $350,000 in one or more outlets; medium, $125,000 to $350,000; small, less than $125,000.

and 23.4 per cent per annum, not counting insurance as part of the principal, or 12.6 and 21.3 per cent per annum if the insurance premium is included in the principal. The monthly instalment required for the used car was only 56.2 per cent as large as that for the new one.

Furniture Terms in the 1930's.—In the furniture business terms seem to have held fairly stable during the 1930's. Tables 39 and 40 bring out these facts. Typical down payments held close to 10 per cent from 1934 to 1940, with a slight downward trend. These figures are influenced not only by the amounts required on the original contract, but also by the proportion of "add-ons" for which little or no down payment is usually required. On original purchases alone the down payment presumably would average higher. Sharp increases from 1941 on were due to the war. By 1943, typical down payments averaged about three times as large as in the middle 1930's, and they remained high through 1946. Table 40 supports the conclusion suggested by Table 14 that collected terms tend to grow longer in times of poor business and shorter in times of good business. From 1934 to 1937 typical collection ratios in furniture stores rose slowly. They fell in 1938, then recovered somewhat and climbed sharply during the war. Except during the war, these movements probably reflect changes in the extent to

TABLE 40

TYPICAL COLLECTION RATIOS, FURNITURE STORES, 1934–1946

Year	Large	Medium	Small
1934	–	11.2[a]	–
1935	–	11.3[a]	–
1936	–	11.9[a]	–
1937	10.03	11.54	13.50
1938	9.21	9.95	12.36
1939	10.06	10.64	11.05
1940	10.11	10.83	11.53
1941	11.65	10.70	12.40
1942	14.60	15.75	16.15
1943	21.25	23.00	b
1944	21.22	25.25	b
1945	22.07	25.50	b
1946	25.15	24.90	b

[a] Data for 1934, 1935, and 1936 not classified by size of store.
[b] Not available.
Source: Annual reports of the National Retail Furniture Association on operating experiences of retail furniture stores. The figure obtained from each store is the "annual average collection ratio" computed by dividing the sum of the outstandings at the first of each month into collections during the year (exclusive of down payments) and multiplying by 100. The "typical" ratio is the median. The stores reporting are not identical from year to year. Large stores have annual net sales of more than $350,000 in one or more outlets; medium, $125,000 to $350,000; small, less than $125,000.

which consumers meet the contractual terms, more than changes in the terms granted. Converted into figures for duration of contracts by the use of Holthausen's formula,[11] Table 40 shows that for large stores the average duration of contracts in 1937 was 18.2 months, rose to 21.2 months in 1938, and fell to 7.0 months by 1946. Medium-sized stores started at 16.4 months in 1937, rose to 19.0 months in 1938, and fell to 7.0 months in 1943. Small stores, starting at 13.8 months in 1937, rose to 17.0 months in 1939, and had fallen to 11.4 months in 1942 when the series was discontinued.

Competition in Offered Terms.—The terms established by instalment sellers represent a composite response to many interacting forces. Individual merchants must fit many different pieces together to establish their policies. All of them, however, must resolve the basic conflict between sales promotion and collections. This conflict is typified in the traditional disputes between the sales staff (which can always sell more goods "if the credit office will stop turning down good customers") and the credit and collection men (who can get in all the outstandings "if the salesmen will quit loading the books with bad accounts"). As we saw in Chapter 10, easy credit has long been used in sales promotion. Many

[11] See Chapter 14 for a discussion of this formula.

merchants pride themselves on a long history of advertising "easy" credit or specific terms, such as 5 per cent down and eighteen months to pay. Simultaneously they have relied upon their credit men to average better terms, holding them to the principle that only old and proven customers or top-grade new risks should receive the maximum extension. Sometimes they permit salesmen to fix terms (as when pianos are sold by outside men who leave instruments on trial in the houses of prospects) and rely upon the credit office to renegotiate the unacceptable contracts.

Most customers can be relied upon to suggest terms for themselves that are more conservative than the ones offered in extreme advertisements. Practically all of them will respond to a sales approach that undertakes to fit the terms to their individual circumstances. Practically all merchants, within the limits fixed by their resources, will similarly respond to the customer's needs in selling terms. Competitive difficulties arise as between merchants when some sellers advertise terms they expect few customers to want.

This kind of competition seems very troublesome to many stores that prefer to advertise the maximum terms they expect to write in any considerable volume. Stores that advertise only vaguely stated terms (such as "convenient" or "budget" or even "easy" credit) expecting to arrange specific terms appropriate to each transaction, or who advertise very conservative specific terms, thus making an offer on which they expect to make good, feel that they are injured when other merchants convert credit advertising into bait and so tend to reduce consumers' confidence in it. They argue that many consumers come to believe they are entitled to the most extreme terms advertised by anyone, and feel aggrieved in not getting them even if they do not really need them.

Stores that advertise specific terms which they do not expect to grant in many sales deny that their policies injure advertising as an institution. They maintain that the more conservative stores "switch" and "trade-up" customers on goods and terms as much as they do. Some credit merchants also argue that advertising does not produce such direct buying responses by consumers as the critics maintain. Easy terms, they say, are useful as attention getters. They attract customers to the store and to the goods it wants to sell, but not necessarily to the terms offered.

Until the Federal government established its wartime controls over terms in 1941, competition between and within these groups of merchants played some part in determining what terms were granted. A good many merchants, it is true, insist that they lead rather than follow in the competitive race. They profess themselves willing to let a sale go elsewhere if they cannot have it on their established terms. Every merchant, in operating his business, must choose the segments of the popula-

tion he intends to serve. Advertising directed to other segments by other merchants probably has less effect upon him than a hasty judgment might suggest.

Of course even a strong merchant will feel some pressure from such competition. It may take the form of complaints that salesmen are losing out to competitors who underbid them on terms. Some stores have found it advantageous to change the balance of pressure by setting up schedules of bonuses to be paid salesmen who induce customers to accept conservative terms. The pressure may come, on the other hand, not so much from the salesmen as from the difficulty and cost of explaining to customers. It may come in a slowing down of payments by customers who feel they are good pay even though they do not meet their contracts precisely because they do meet schedules acceptable to other merchants in the community. Every merchant is confronted by community customs and habits he can oppose only with difficulty and at some risk.

Factors Influencing the Merchant's Choice of Terms.—The decisions the merchant finally reaches must solve many related problems. Thus his credit policies and the choice he makes as to the kind of customer he wants to attract are interrelated. He can include or exclude groups by his credit policy, as much as by choosing his goods, locating his store, or designating areas into which he sends salesmen. His terms may be intended to influence not so much who buys as when. Thus refrigerators, sold in the fall or winter with the first payment due the next spring or summer, may be designed to keep the shop busy in the off season.

The merchant is not a completely free agent in these matters, but is limited by the opportunities open in his environment. Furthermore, like his own customers, he must make many of his choices in "bundles." He cannot treat his credit terms, preferences as to type of customers, location, type of goods handled, and procedures in sales promotion as completely unrelated. He cannot sell goods of the sorts preferred by business executives to farmers on terms suited to the needs of wage earners. A choice in one area limits the number and variety of alternatives open to him in other areas. The merchant also is limited in his credit policies by the kinds of times in which he is doing business. When incomes are high, money is plentiful, and goods are scarce, he can afford to be much less accommodating than when sales are hard to make.

The merchant's decisions as to his terms will be influenced further by the type of organization he runs. In a store where the terms are set directly by partners and where most of the customers are well known, a great deal of flexibility is possible. In a big store, and even more in a

chain of stores, fairly rigid standards will have to be set, and these must fit the requirements of the marginal customer sought. Here lies a major reason for disagreement as to what constitutes sound credit. Effective management of a large staff requires the setting up of formal rules and procedures, and one of the biggest assets of a small store is that it can adjust to each new situation as it comes along.

If the merchant depends upon some other agency for funds, his credit policies will be limited by any restrictions the banks or finance companies place upon his paper. Thus a finance company may refuse to accept paper financing the sale of soft goods to consumers, even though it finances the sale of the same goods by the manufacturers or wholesalers to the retailer. Similarly, it may refuse to accept paper exceeding some specified number of months or with a down payment falling below a specified minimum. Sometimes the finance companies have the opposite influence. Many merchants gave their customers three years or more to pay on major household appliances during the 1930's, only because they could sell the paper. Not only did this provide the capital required; it also set up a situation in which they could segregate the long-run paper and resist pressure from consumers for similar terms on the other goods.

Specific Elements in Terms.—The specific elements in terms may represent a compromise among conflicting pressures. Thus the credit man's desire to get as much cash down payment as possible often comes into conflict with the merchandiser's desire to get the customers onto the books. Each merchant must decide how much of a risk he will take in order to build up and maintain his trade. The down payment is also affected by the distinction a firm makes between convenience credit and financing credit. Someone must draw the lines that determine when goods do and do not go out as charge accounts requiring no down payments. At the other extreme a store must decide upon the extent to which it will permit or require the accumulation of a down payment through the lay-away plan by instalment buyers.

Similarly, the merchant must coordinate a variety of factors in determining the size and frequency of the successive instalments he will accept. As to frequency, the way the customer receives his income is the most important factor, but the merchant must also consider his desire for store traffic. Frequent small payments get customers into the store more times than infrequent large ones. They thus do one of the things advertising is designed to accomplish—expose customers to all the other sales devices of the store. Furthermore, they make possible a closer check on collections and a quicker follow-up on delinquencies. Unfortunately they also entail higher costs in the store's office, impose

more trouble upon the consumer, and have little significance as aids to sales promotion if the customer chooses to pay by mail. Some merchants believe payments should be so large that the customer must plan to meet them and thus will tend to remember them. At the same time the merchant must hold the aggregate sale and the periodic payments within the customer's ability to meet them comfortably.

Size and frequency of payments and the length of the repayment period are all interrelated. A merchant may set dollar-and-cent minima on periodic payments in order to prevent long terms on small purchases. Correspondingly, he may train his salesmen to determine the size of the unit sale toward which they aim in selling by deciding upon the maximum payments and the maximum periods for which the prospective buyers should be permitted to obligate themselves. We shall have occasion in Chapter 14 to see how the collection ratio (i.e., the ratio of payments made by customers to the amounts customers owe) is used to control credit operations. To the sales executive this ratio has utility as a test of his salesmen's effectiveness. A high ratio may indicate that the store is losing potential volume by selling its customers units of lower value than they would be willing to take if persuaded. The problem is again one of working out a compromise between conflicting principles.

Terms and the Life of the Goods.—An old rule in instalment selling holds that payments should not extend beyond the period when the goods cease to give enjoyment to the customer. For example, pianos and refrigerators sell safely on very long terms because they give satisfaction to the consumer for many years, but most clothing will safely support terms only if they pay out within a season. Closely related is the rule that the amount of credit provided in a retailer's "bundle" should be much smaller than the amount of goods and other services included. What the consumer buys primarily is the merchandise. In another sense, however, "package" merchandising may justify terms for a related group of items longer than any individual item in the group could carry safely. This principle supported the practice sponsored by the Government during the 1930's of selling two or more appliances in combination on five-year terms. It also lies back of more recent plans for including such appliances in "packaged" houses selling on terms up to twenty-five years or even longer. These specific terms may or may not be desirable to individuals or society, but there is little question that the prolonged utility of the house, as a whole, lengthens the period during which the consumer will, if he can, continue to meet his payments.

The fact that the length of the periods during which goods yield substantial satisfaction to the consumer is usually shorter than their physi-

cal life tends to restrict terms even where the physical life is very long. Furthermore, any store is a unit, and it must make sure that very long terms on some goods do not seep into all goods. It must protect itself against being forced to pay maintenance costs through demands for the adjustments and repairs that become increasingly necessary and increasingly costly as goods begin to wear out. It must hold within tolerable limits the risk it runs that business recessions, personal misfortune, or death will interfere with the ability of a consumer to pay. It cannot forget that since collected terms average out considerably longer than written ones, any terms granted are really longer than they look in the contract.

The Influence of Trade Associations on Terms.—Two organized forces that have played a conspicuous part in determining the levels at which instalment terms settle from time to time were considered in Chapter 8, but they also deserve mention here. These are trade associations and various Federal agencies set up as incidents in the Government's efforts to stimulate economic activity in the 1930's. Formal and informal trade groups have long exerted pressure on terms, usually in the direction of restriction or tightening. Since retailing is strongly localized, the most effective efforts to influence terms have come from local commercial, trade, and credit organizations. National organizations have exerted some influence, but such agreements and understandings as exist have been worked out in specific localities. These vary in nature and scope, being designed to do such things as set maximum terms, minimum down or periodic payments and minimum carrying charges, to curb credit advertising, to restrict the list of goods eligible for instalment credit, and to enlarge the area of control of the credit manager. Such restrictions have a somewhat limited effectiveness in most communities, since they must rely upon persuasion. We have seen in Chapter 8 that there is some doubt as to the legality of these agreements under the antitrust laws if they involve any degree of formal agreement. In practice, also, they are likely to be subscribed to and chiefly supported by the larger stores whose credit business is primarily in charge accounts and whose very size precludes flexibility. In some communities organizations of aggressive credit retailers exert some influence.

Data are scarce by which to measure the success of these efforts quantitatively. Figures compiled by the National Association of Sales Finance Companies for the period 1933–1938, inclusive, show that the terms actually granted on automobiles differed substantially from association standards.[12] There can be little doubt that similar data for

[12] Quoted in W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices,* p. 143. See also the figures from J. D. Weiss quoted earlier in this chapter.

other times and other trades would ordinarily show a similar situation. It is impossible to say, however, whether the differences in standards and practice would be large or small.

The Influence of the Federal Government on Terms.—Merchants and credit men sometimes say that the Federal government had more influence upon terms than any other agency during the depression. It was the Electric Home and Farm Authority, set up in 1934, that promoted sales of electric appliances on terms running up to five years. The Federal Housing Administration, also set up in 1934, likewise encouraged easy credit through its insurance of loans for the purchase of household equipment. Figures compiled by Coppock show that 66.3 per cent of the contracts purchased by E.H.F.A. in 1934–1935, and 69.5 per cent of those purchased in 1935–1936, provided for terms of 36 months or more. In subsequent years this percentage dropped, but for the entire period of its operation, more than half of the agency's contracts were for 36 months or more. In its first year, 61.5 per cent of its contracts provided for down payments of less than 10 per cent of the cash selling price. Here, too, the policies tightened in later years, but for the four years ending in 1938 the contracts with less than 10 per cent down payment represented 44.6 per cent in the total.[13] These are written terms. There are no data as to how much collected terms differed from them.

F.H.A. had a similar influence upon terms in the area of its operations. This influence can be summarized by saying that these agencies made durable goods available to consumers who would not or could not make large down or monthly payments, but who could and would pay for a substantial amount of credit service and willingly obligate some portion of their income for a long period into the future in order to get the goods. The Rural Electrification Administration and the Resettlement Administration also encouraged the purchase of durables on long terms. To what extent Government influence caused credit terms to ease generally cannot be determined with any considerable degree of precision. The Government itself was responding to powerful social forces.

A few analysts find the most important influence of the Government upon terms during the 1930's not in its direct support of instalment selling but in the indirect effects of its fiscal and monetary policies. Thus one commentator attributes the weakening of instalment terms during the depression to the pouring of Federal deficits into the banking structure. Easy bank credit, he holds, greatly stimulated a search for new profitable uses for funds. Cheaper and longer terms to the buying pub-

[13] J. D. Coppock, *Government Agencies of Consumer Instalment Credit*, pp. 108, 109.

TABLE 41

ESTIMATES OF TYPICAL INSTALMENT TERMS OFFERED ON SELECTED CONSUMERS' DURABLE GOODS PRIOR TO REGULATION W, AND TERMS UNDER FEDERAL RESERVE REGULATIONS[a]

	Preregulation Down Payments (Per cent of sales price)		Federal Reserve Minimum Down Payment (Per cent of basic price)[b]	Preregulation Contract Maturities (Months)		Federal Reserve Maximum Contract Maturities (Months)
	Range	Largest Volume		Range	Largest Volume	
Automobiles:						
New	20–40	33⅓	33⅓	12–36	18	15
Late models	20–40	33⅓	33⅓	12–24	18	15
Older models	20–40	33⅓	33⅓	12–18	12	15
Mechanical refrigerators	0–12	10	33⅓	6–36	24	12
Radios, phonographs	0–6	10	33⅓	6–36	12	12
Stoves, electric and others	0–12	10	33⅓	12–36	24	12
Vacuum cleaners	0–8	10	33⅓	10–24	18	12
Sewing machines	0–10	10	33⅓	6–36	18	12
Furniture	0–10	10	20	12–36	18	12
Floor coverings	0–6	10	33⅓	5–24	12	12
Draperies	0–3	10	33⅓	3–24	12	12

[a] As of May 6, 1942.
[b] Basic price in the case of automobiles is the sales price; in other cases it is the sales price minus the allowance for an article traded in.

Source: D. McC. Holthausen, "Monthly Estimates of Short-Term Consumer Credit, 1929–1942," *Survey of Current Business* (November, 1942), p. 13.

lic were such a use.[14] This is obviously an extremely simplified treatment of an extremely complicated problem. One can hardly doubt, however, that it contained a germ of truth.

The Influence of World War II on Terms.—When the Federal Reserve Board imposed Regulation W in 1941, it directly reversed the earlier policies of the Government, and what they were intended to accomplish. The intent now was to restrict rather than to expand instalment buying. Table 41 indicates that the terms set by the regulation represented a much less drastic change from preregulation terms for automobiles than for other commodities. Prior to the war, down payments on automobiles ranged from 20 to 40 per cent of the sales price, the largest volume being done on a down payment of one third. Other commodities sold with down payments ranging from zero to 12 per cent, the largest volume being done on 10 per cent. Despite these differences in past experience, the Federal Board in 1942 established a minimum of 33⅓ per cent for all commodities except furniture, which was permitted to do business at 20 per cent. Furthermore, for automobiles, but not for other goods, the down payment could include trade-ins. The contract maturity of 15 months permitted automobiles represented a very slight reduction from the most common preregulation terms, and actually exceeded the most common terms for the older used cars. Other commodities were cut to 12 months, a reduction of from six to twelve months under the most common terms for many of them.

[14] J. R. Walker, "The Economics of Instalment Credit," p. 18.

CHAPTER 14

CREDIT CONTROLS USED BY MERCHANTS

The Collection Ratio and Its Uses.—Correctly computed and interpreted, a figure on average duration of contracts under instalments sales would be very useful both for governmental and for managerial control. Unfortunately, very few retail stores compute average figures on either written or collected terms. Figures such as those in Table 14 must, therefore, be estimated from other data.

Most important of these data is the so-called collection ratio. Computed as a matter of managerial routine by a great many instalment retailers, it has considerable utility as a tool of management. Any retailer who keeps books can compute it easily. Ordinarily he will compute collections during any month as a percentage of outstandings at the beginning of the month. To compute an average for the year, collections during the year will be taken as a percentage of the aggregate of outstandings at the first of the various months.

If the collection ratio rises from one month to the next, the retailer usually considers the change favorable. He thinks of it as indicating a move of his credit operations to a "sounder" basis. Correspondingly, he looks at a reduction in the ratio with misgiving as indicating a relaxation of credit standards, a slackening of collection efforts, or an increase of customers' difficulties in meeting their payments. If the reduction continues, he is likely to demand an explanation and possibly corrective action. Such judgments are modified in practice by the knowledge that if the collection ratio is too high the store is, in effect, withdrawing from the kind of business it was set up to do. Furthermore, an allowance must be made for seasonal movements in the ratio.

The collection ratio is widely misinterpreted. Many retailers, for example, compute what they believe to be the average duration of the contracts they have on their books by dividing the ratio directly into their outstandings. This gives an erroneous figure, since it fails to give proper weight to the periods various parts of the outstandings still have to run at any particular time. Dividing the collection ratio directly into outstandings makes the average contract period (i.e., the period during which the seller will have funds tied up in his average account) about half as long as it really is.

Further misinterpretation arises from the difficulty of compiling statistics that correspond exactly to the definitions of the formulas. For example, merchants often include down payments in collections. This practice throws considerable doubt on the accuracy of collection statistics, since new business and down payments on that business fluctuate more than either outstandings or collections proper.[1]

The Significance of Changes in the Collection Ratio.—The collection ratio (even when down payments are eliminated from the data) is affected by several variables in the credit operations, and there may be a considerable lag in its response to changes in these variables. Furthermore, the ratio measures experience with actual collections, so that it reflects changes in written terms only to the extent that they are actually enforced. A change upward or downward, insofar as it reflects changes in terms at all, may reflect either an enforced formal change in the written terms or a change in the extent to which written terms are enforced without being changed formally. Any tightening or loosening of contracted terms, since it applies only to new business, will affect the ratio only after a lag. In contrast, a tightening or loosening of actual collection rates will affect the ratio immediately.

An additional major difficulty impeding effective use of the collection ratio for purposes of control, especially on a month-to-month basis, is that in the short run factors unrelated to credit policies may affect it sharply. For example, even if average collected terms remain unchanged, a sharp decrease in sales reduces outstandings more rapidly than collections, and so tends to increase the collection ratio temporarily. This tends to give a false impression that terms have shortened. Correspondingly, a sharp increase in sales tends to give the impression that terms are weakening more than they in fact are.

When instalment sales of durables dropped sharply during the war, consumers had more cash and could afford shorter terms, and when government agencies tightened their regulation of terms, the influences of the three forces in the collection ratio could not be separated. The very sharp month-by-month increase in collection ratios of all instalment retailers during 1941–1944 was due in part to the shortening of collected terms. This shortening came partly from the shortening of written terms, whose effect on the collection ratio was somewhat delayed. It also came partly from a narrowing of the spread between written and collected terms, as consumers came nearer to meeting their contracts or

[1] The Credit Management Division of the National Retail Dry Goods Association uses a composite formula designed to meet the situation where it is impossible or undesirable to separate down payments from collections for purposes of this computation. Under this formula the new business to which the down payments apply is added to the outstandings. For further details see H. G. Godfrey, "New Statistical Percentages," *Credit Management Year Book: 1938–1939*, pp. 222–225.

even anticipated their payments. It was due still further to the sharp decrease in the volume of instalment sales because of the disappearance of durables and the growth of cash sales. This decrease carried outstandings in some trades down to negligible figures. It is self-evident that an enterprise which is going out of the instalment business entirely must eventually come to the final month in which it collects or writes off all its remaining receivables and thus achieves a collection ratio of 100.

An annual average covers a period long enough for some of these lags and temporary effects to work themselves out. It thus reduces some of the faults of the collection ratio, although it does not eliminate them. For historical purposes, and possibly for purposes of governmental long-range control, the annual average will be useful. It still will not show, however, the extent to which any changes are due to the extension or shortening of written terms as against extension or shortening of the margin by which collected terms exceed written ones. Even as an annual average, the ratio gives managers little help in dividing responsibility for what is happening to terms between the credit interviewers who write the terms and the collection office that enforces them.

Ways of Computing Contract Duration.—Despite its shortcomings, the collection ratio is important because it is the principal instrument by which one can estimate the average duration of a dealer's or a trade's contracts. Holthausen's estimates in Table 14 are derived from the formula

$$n = \left(\frac{2}{cr}\right) - 1,$$

where n is the average duration of indebtedness in months on the assumption that collections will continue at the same rate to maturity, and cr is the collection ratio.[2] Since cr can be expressed as $\frac{c}{o}$, c being collections during the month and o the outstandings at the first of the month, the formula can be rewritten as

$$n = \left(\frac{2o}{c}\right) - 1.$$

Holthausen says he converted his monthly figures into annual averages, but he does not give his formula. One way of averaging is to rework the immediately preceding formula into

$$N = 24\left(\frac{O}{C}\right) - 1,$$

[2] Any of the formulas here discussed can readily be adapted to figures collected at intervals other than monthly.

where N is the duration of indebtedness in months averaged over the year, O is the mean of outstandings at the first of each month during the year, and C is the total collections during the year.

Some analysts use sales rather than collections in the formula, which then becomes

$$N = 24\left(\frac{O}{S}\right) - 1.$$

S is defined as gross time sales less down payments, or as the aggregate of unpaid balances added to the books. Paper sold to others is deducted. In a mature and completely stable market the results obtained by using sales would differ from those obtained by using collections only to the extent bad debts make sales and collections differ. In the long run, sales less down payments must equal collections plus bad debts. In practice, especially for short periods, the two formulas yield quite different results. Trade normally fluctuates, and changes in outstandings and collections lag behind changes in sales.

Under any of the formulas the figure suffers from the faults of the collection ratio used in computing it. So it tends to overstate the duration of contracts if sales are rising, and to understate if sales are falling. Similarly, it tends to lag behind changes in the average duration of written terms when terms are either rising or falling because it is affected by the collections under contracts written while the preceding terms were in force. It must therefore be used with very great care.

For maximum usefulness to management, estimates of the average contract duration would need to be measured against estimates of the average terms written. Only thus can it be decided whether credit men or collectors are responsible for any lengthening or shortening in the terms actually paid by consumers. Few instalment merchants pay much attention to this problem; occasionally one will keep a continuous record or at least periodically check a small sample of contracts to see what the difference is. Few do even this much. Most of them tend to rely upon simpler (if less meaningful) checks of the credit offices.

Functions of the Credit Manager.—In the credit office are centered the routines of credit selling, the control of credit operations in accordance with the store's standards, some part in setting the standards, and some degree of responsibility for collections.[3] Most stores that do a substantial volume on instalments feel that the credit manager should also consider himself a part of the store's promotional and merchandising organization. Differences among stores in this regard appear in

[3] The present study does not describe the mechanics of operating a credit and collection office. For such a description see many standard textbooks, e.g., T. N. Beckman, *Credits and Collections in Theory and Practice;* B. W. Griffin and H. C. Greene, *Installment Credits and Collections and the Installment Market;* and C. W. Phelps, *Retail Credit Fundamentals.*

the willingness of the more promotional office to accept somewhat more doubtful risks, and of the over-all management to accept a somewhat larger loss percentage from the credit operations. They also appear in the extent to which the credit office tries to modify and adjust arrangements with individual applicants so as to get the account on the books with a reasonable likelihood of paying out. If its function is looked upon as promotional, the credit office also has the primary responsibility for active solicitation of new credit business.

Whatever its functions may be as regards these matters, the credit office almost universally does the work of accepting or rejecting applications for credit. This responsibility includes not only the final approval or disapproval of the delivery, but also interviews with applicants and, in some stores, formal preparation of the sale contract. In most stores salesmen fill out the contract forms and they may even arrange the terms, but in practically all instances what is done by the salesman must be checked and approved by the credit department. The best present-day practice forbids the salesman's talking terms with his customers other than to make clear that suitable or reasonable terms can be arranged. The actual arranging of terms is left to interviewers in the credit department. A few stores still hold to an older practice under which the salesman or his immediate supervisor selects the risks and fixes the terms. This system persists in a few large stores but is most likely to appear in stores where an owner does the selling, or in operations that call for meeting the customer in his home, as in the sale of pianos, or in house-to-house selling of goods of smaller unit value. Even here the store maintains some degree of control by such devices as restricting the areas in which sales may be made and organizing the salesmen into crews whose arrangements must be approved by the crew captain before goods are actually left with consumers.

In stores with centralized credit control, the credit office usually takes the responsibility for getting whatever information is obtained about the customer's creditworthiness and for making checks of the sort to be described shortly. It also authorizes or refuses "take-withs" when the customer wants immediate possession. For the heavier types of durables, including those that require a considerable amount of conditioning or adjusting before they go to the consumer, the problem of "take-withs" has little importance. Stores selling items of small bulk but large value have a very important problem in the customer who, even though he may be new to the store, wants to walk out with the goods on a credit purchase. Stores follow all conceivable varieties of policy on "take-withs." Some ask the customer to come back for the goods after a short interval or the next day; meanwhile they make checks. Others rely on telephone checks while the customer is in the

store. Still others permit "take-withs" without formal authorization by the credit office up to specified amounts if certain formalities are carried out, permit larger "take-withs" if the credit office has time to make a quick check by telephone of such matters as the applicant's residence and employment, and hold deliveries on still larger purchases until the account can be formally checked and cleared.

For example, in one jewelry chain the clerk can let goods worth $10 or less go out if the account looks satisfactory to him on its face. This chain finds that in practice its salesmen are rarely deceived. In fact a good many stores rely very heavily upon the judgment of experienced salesmen, even when a credit office formally approves or rejects applications. On sales amounting to between $10 and $25, clerks in this chain may let the goods go out if they find the name given by the applicant listed in the telephone directory at the proper address. On sales ranging from $25 to $200, the store manager may approve "take-withs" after a telephone check with the local credit bureau while the customer waits. On sales or more than $200, the chain in effect forbids "take-withs" by requiring the manager to check with central headquarters before delivering the goods.

When a chain has all its stores in one community, it may require that "take-withs" be authorized by the central credit office regardless of amount. Any type of store may also set up a hierarchy under which sales are graded according to size, and the approval of officials of successively higher rank is required as the amount of the sale increases. For an old customer a purchase often is approved or rejected promptly, whereas the same store will insist upon having time to make an outside check on new accounts. For some types of transaction stores establish approval in advance of sale by using such devices as coupons, cards, certificates, and letters of credit.

In most organizations the credit office also has the responsibility for collections. The individuals who check credit and collect accounts may be different, but most credit sellers find it desirable to have both the extending of credit and the responsibility for bringing in payments subject to one department head. How far the authority of the collection office goes differs from enterprise to enterprise. Most stores assign the routines to this office, but many require approval of high officials in the store, possibly that of the principal executive or owner himself, before resort to severe procedures.

Organization of the Credit Office.—Two different types of activity engaged in by credit offices call for two types of talent. To some extent the management of credit and collections is a strictly mechanical routine that involves record keeping, billing, dunning, and minor adjustment

of accounts. This aspect of credit-office operations requires primarily an efficient organization of physical processes. The other type of activity takes responsibility for extending credit and handling seriously delinquent accounts. It calls for judgment and tact more than for mechanical skills. For that reason the usual credit office has a staff with narrowly limited functions and responsibilities, along with another that must exercise independent initiative and judgment.

The office setup varies widely, primarily according to the size of the store and its volume of business. In the smaller stores, those aspects of the work calling for judgment are likely to be handled by a partner or senior employee. The mechanical operations of keeping records and billing are likely to be turned over to a clerk. In a somewhat larger store, one of the partners or a major executive probably will handle credit and collections along with other specialized duties such as those of the office manager, comptroller, treasurer, store superintendent, or personnel manager. The clerks required to take care of the office and other routines will be assigned to him.

A still larger store probably will install a specialized credit manager who supervises collections, and who may go out himself to deal with difficult accounts. At the next stage, stores may separate credits and collections, subject to the unifying control of some higher official such as the comptroller. Beyond this point the organization of credit and collections in retail stores breaks down into an endless variety of detail. The very large retail organizations, especially the chain stores, usually have layers of credit and collection offices, ranging upward from the manager responsible for one store, through divisional supervisors, to a central credit office at headquarters. The central office may exercise a close control through manuals, auditors, and supervisors, or a very loose one that judges each store manager by his over-all results in profits, write-offs, collection costs, and the like.

The Responsibility of the Credit Manager for Policy.—The extent to which the credit manager should set policies as distinct from carrying them out is highly controversial. Important questions of policy include the establishment (within the controlling limits set by the store's market situation) of credit plans, determination of the maximum credit to be granted buyers, determination of the types of customer to be accepted or sought aggressively, determination of the loss ratio to be taken and ways of handling delinquent accounts, the types of records to be maintained, the types, extent, and objectives of the credit promotions to be conducted by the store, and the procedures to be used in quoting carrying charges.

Some credit men feel that they should have absolute authority over many of these matters. By and large, however, the real authority in any store is more likely to center in the merchandising department. The conflict over credit office's functions sometimes comes out in community or trade association policies. One check to the effectiveness of associations' credit policies is that they are commonly set up by credit men who find themselves overruled by the merchandising men when the pinch of turning down sales comes. Some retailers and others interviewed by the present writer have expressed the belief that more progress would be made with such matters, and the general interest of the community would be served better, if the stores were represented in the credit bureaus by merchandising men or top management rather than by credit managers. The Retail Credit Institute of America was organized in 1942 by store owners in recognition of their responsibility to the community for credit policies and practices.

Objectives in Checking Creditworthiness.—The checks that retailers make of applicants for credit have as their objectives some combination of the following:

1. To sort out the bad moral risks. These are irresponsible people, individuals of doubtful integrity, and outright frauds, the potential "skips" and "deadbeats" with whom the store does not want to do a credit business on any terms.
2. To establish a foundation of information upon which to build credit arrangements suitable to the customer. This means holding the purchase and the credit to amounts and terms that the customer can meet comfortably and will meet cheerfully.
3. To provide for a safety factor against possible changes in the customer's ability to pay or his interest in the goods. Such a factor will make it easier, as the contract matures, to maintain a fair balance between granting concessions and putting on pressure.
4. To identify contacts that will serve as starting points in tracing skips.

The Kinds of Information Sought.—The kinds of information sought vary considerably in detail from store to store, but are intended to throw light on characteristics the credit office believes to bear significantly on such questions as the following: Can this customer pay his bill? Does he intend to do so without serious delinquency? If not, can he be made to pay by acceptable collection methods? Common sense and experience, rather than abstract reasoning or formal research, have chosen the questions asked. They are intended to establish such things as these:

A positive identification of the customer with the name he gives.

The right of the applicant to receive goods lawfully.

The applicant's financial resources, especially the size and stability of his income, the value of any collateral or supplementary security offered, and the extent to which he possesses other assets and owes other debts.

The soundness of the customer's personal habits. There emphasis is likely to be placed upon the kinds of friends he has and the sorts of expenditures he makes.

The quality of the applicant's payment record, both on any accounts he owes currently in the community, and in the past. If there are bad spots in his record, the customer will ordinarily be given an opportunity to explain them.

Since much of this information cannot be obtained directly from the customer, it is commonly obtained indirectly by getting answers to such questions as these: Who is the applicant? Where does he live? How long as he lived there? Where does he work? What does he do? How long has he held his present job? Does he pay his bills promptly? Has he always done so? Does he own property? Specifically, does he own the house in which he lives? What other financial obligations does he have?

Many customers are not asked all of these questions. For example, some merchants will open an account without further investigation for any consumer who has lived at his present address for a year or more in the absence of a known bad credit record.

Statistical Studies of Factors Affecting Credit Risks.—Very little effort has been made, through formal statistical research, to determine measurable characteristics of borrowers that do and do not exert an important influence upon payment records. One such study made for a group of personal finance companies for 1934-1937 showed that charge-offs decrease as the income of the borrower increases, and that stability of income apparently has more influence than size upon payment records. That is, charge-offs were higher than average for borrowers with obviously irregular incomes, such as proprietors, unskilled workers, and sales persons. Similarly, workers in industries with large seasonal or cyclical variations in employment, such as mining, construction, food manufacture, and the distributive trades, were worse than average. Correspondingly, the charge-off record was better than average in such occupations as skilled labor, management, teaching, and office work, as well as among people with independent incomes. Also

it was better than average in highly stable industries such as the public utilities and postal service.

Durand subjected some 7,200 transactions taken from the records of thirty-seven financing agencies to a systematic analysis.[4] About three fourths of the transactions were cash loans; the others were contracts of sales finance companies on automobiles and appliances. No transactions from retailers were included. The sample was divided into two approximately equal groups—those classified by the companies as having had "good" payment records and those with "bad." Durand made no specific definition of good and bad, but relied upon the normal procedures of the lenders in classifying accounts for their own purposes.

He computed several ratios and indexes to find out whether the payment record was appreciably affected for good or ill by a number of characteristics of the buyers that credit men commonly take to be significant indicators of creditworthiness. He points out that the significance of his figures is limited because his sample came from a selected group of risks. Credit officers had presumably already eliminated would-be borrowers whom they believed to be bad credit risks. Since no rejected applicants were included, the study thus throws no light upon whether the rejects were well selected. Durand was also unable to get usable statistical data on some important risk factors, notably past payment records and the physical and mental health of the applicants.

Despite these limitations the results of the study have some utility in an analysis of instalment buying. They indicate that such factors as possession of a bank account, stability of employment, and a large down payment are more important than the credit men involved had supposed as indicators of better-than-average creditworthiness. Durand's efforts to work out credit rating formulas for use by credit officers were not very successful. As he himself says, his formulas are of more interest to students of statistical theory than to practical credit executives.

Rating Systems.—Individual credit men have experimented with various formalized credit rating schemes of their own. These are usually point systems of some sort. Although none has received widespread acceptance, one or two may be described to show their general nature. One sales finance company assigns a rating of 10 points to "perfect" automobile paper. The score includes 2 points for the applicant's previous credit record, 2 points for the quality of the collateral offered, one point for providing the name and address of a relative, 3 points for the purchaser's employment record, and 2 points for permanence of residence. Each contract is graded on each of these factors.

[4] D. Durand, *Risk Elements in Consumer Instalment Financing.*

Paper rating 6 points or more will be accepted by the company without recourse. Paper scoring 5 points or less either will not be accepted at all or will be accepted only with recourse or under a repurchase agreement, and even then only for responsible dealers.[5]

A retail furniture dealer interviewed by the present author used a system which listed ten factors. The applicant was given 25, 50, 75, or 100 points on each factor, according to whether he rated poor, fair, good, or excellent. In order to be accepted he must have an aggregate of at least 625 points. The factors, the scores, and the passing grade all developed out of trial and error in day-to-day business operations.

Various lists summarize the judgments of credit men concerning the credit ratings that should be given to individual occupations.[6] Such lists tend to overrate the "prestige" customer and to underrate the ordinary rank and file. They have some utility, nevertheless, in that they give an indication of the size and stability of income. Rating occupations as credit risks may thus be merely the merchant's way of trying to administer standards he has really set in terms of minimum income and continuous earning capacity.

By and large, the instalment business makes little use of elaborate formalized plans of credit rating. The merchant more often looks at the individual applicant and tries to follow a common-sense rule in dealing with him. If he has steady employment, reasonably regular paydays, and a satisfactory record in credit dealings, and if he is buying something that seems to fall within his means, most stores will sell to him on instalments. Even a bad record is not decisive if the customer can show that it is attributable to past economic difficulties beyond his control, or to a disagreement with the seller over the goods and service received, or to some other circumstance which indicates that the moral hazard will not be serious. A store, in fact, may sell to a client with whom it has had collection difficulties in the past if circumstances so warrant. The instalment business, in other words, must go on the assumption that most customers are honest and intend to pay their bills.

Sources of Information on Credit Applicants.—The sources from which retailers can draw the information about credit applicants are limited by the fact that they provide credit in small units. They often must limit expenditures for the purpose to a few cents on each transaction. Even when they separate out the very small sales on which they make little or no check, the remaining large ones are not big enough to permit the sorts of check commonly made on commercial loans. Furthermore, since most retailers are small and themselves have modest

[5] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 136–138.

[6] Several occupational ratings are assembled and discussed in P. D. Converse, "The Occupational Credit Pattern."

incomes, a charge of even 15 or 25 cents for each applicant may add up to an appreciable percentage of the profits at the end of the year.

Whatever the extent of the check made, the information required is customarily drawn from three sources—the applicant, inquiries made by the retailer himself, and inquiries made through a credit bureau. The information obtained from the customers is ordinarily filled in on the credit application, which may be a part of the contract form, a separate blank, a section of the sales slip, or a ledger card. Much of the information is filled in by the interviewer from data obtained in informal conversation. The application itself is commonly quite simple but is sometimes quite detailed. It ordinarily covers most of the salient factors listed above, except income, property, and other debts, which are more likely to be determined by the store through other means if it wants the information. Very rarely is the customer asked directly for a financial statement.

Direct checks on the applicant are made by the stores themselves, partly to verify and partly to supplement statements in the application. On "take-withs" the checks must be quick and limited, since they are made while the customer waits. When goods are delivered to the buyer the store can make a more careful check, but what it does will depend upon the size of the purchase and the purpose of the check. If all it wants is to verify the customer's statements, it usually checks one or two items by looking in a directory and making a phone call or two. In many stores, especially in small towns, a large proportion of the applicants, even though they have never bought from the store before, will be known personally, or their families will be known personally, to the merchant and his employees.

Where the customer has already done business with the store, it usually will not go beyond its own record concerning him and his payment habits, unless the account has been dormant for a long time. The availability of records which can be used to check credits is one of the competitive advantages some types of organization have. Thus public utilities that sell durables have in their files payment records for all individuals having utility connections in their territories. Established credit merchants usually think of their customer records as one of their major assets. Such stores sometimes work out a formal code rating their customers, so that when one comes in to make a further purchase the credit office can tell at a glance whether it wants to do business with him again, and, if so, what sorts of limit it should put on the purchase and the terms.

Credit Bureaus.—More detailed checks outside of the store are usually made through retail credit bureaus. These bureaus first ap-

peared shortly after the Civil War. They developed slowly, so that as late as 1900 the entire country had only about fifty. By 1918 the number had grown to 300. There are now more than 1,200 bureaus affiliated with one association, the Associated Credit Bureaus of America. A great many others are not so affiliated. Some bureaus are privately owned, profit-making enterprises. Others are cooperatively owned by groups of merchants. Still others are affiliates of local trade associations or chambers of commerce.

Many communities have two or more bureaus. One of these usually specializes in maintaining records and making checks concerning charge-account buyers. It is likely to be controlled by the department stores and larger downtown specialty shops. Checks on instalment buyers are likely to be made through bureaus controlled by merchants who emphasize instalment selling. Cash instalment lenders also sometimes set up specialized bureaus dealing with their problems of credit investigation.

There are several reasons for the apparent duplication of credit bureaus. First, the two lists of retail customers—charge-account buyers and instalment buyers—usually overlap to a very limited extent. Second, bureaus specializing in charge accounts, being dominated if not owned by the department stores, are apt to give more weight to social status in their credit ratings than is desirable for stores that sell primarily on instalments. Third, instalment stores usually want a comparatively inexpensive service confined to making sure that the applicant does not have a bad payment record. Although practice differs among communities, these stores are less likely, as a rule, to be interested in so-called trade clearances (i.e., inquiries directed to other stores) and detailed checks of the customers' applications than are the charge-account stores. The overlapping of records and services between the two types of bureau has increased in recent years as department stores have expanded their instalment operations. There has thus developed some direct competition between the two types of bureau, and some agitation for unification in particular communities. Thus far little progress has been made with such proposals.

Services Performed by the Credit Bureaus.—Most instalment bureaus offer a considerable variety of services to their clients. The fees from which they derive support vary according to the service. Some have a basic membership fee which provides for a specified number of checks or reports, with a schedule of fees for reports in excess of this number. Others rely wholly upon fees charged for individual reports, so that the expense to the individual merchant varies directly according to the use he makes of the bureau.

The basic function of such bureaus is to pool the information of stores concerning their experience with individuals as instalment buyers. Bureaus vary widely as to the kind of information they get automatically from cooperating stores. Some of them receive only so-called derogatory records. The cooperating stores agree to report regularly to the bureau all accounts they have had trouble collecting, especially where they have had to use severe methods such as repossession and garnishment. Sometimes they also report on all applicants whom they have rejected for credit.

Additional data are obtained by the bureau through building up its file. When a store calls in about some individual, that fact is noted on his card, or, if he has not appeared in the records before, a new card is made out for him. More facts about the individual are accumulated as inquiries and reports come in. The bureau also compiles from other sources and may distribute in the form of a periodic bulletin data on bankruptcies, lawsuits, judgments, divorces, and other events affecting the credit status of individuals in the community, including those already on merchants' books. Finally, the bureau may build up its files through making trade clearances and outside checks at the request of its members.

The cheapest and most elementary service a bureau offers is a check of its own card file to see if the applicant's name is listed, and a statement of what is on the card. For many applicants the cards will show only that inquiries concerning them have come in from other stores. In such instances the store to whom a customer is now applying may check with the other stores as to their experience with the applicant. If the bureau maintains a derogatory file, its cards will also show any reports received on bad experiences of merchants with an individual. The store which is informed of this record can either turn the applicant down forthwith or (as is more common) ask him to explain the record. If the bad report turns out to have been based on a misunderstanding or to be unwarranted or of no significance for present purposes, the store can accept the contract knowingly. If a store prefers not to make direct checks with other stores concerning their experience with its applicants, it may engage the bureau to do so for an appropriate fee. The bureau will also make outside checks by telephone or through interviews, including checks of the experience of merchants in other cities with consumers who have just moved to town. This kind of check is quite exceptional in instalment selling.

Over and beyond its credit investigations, a credit bureau may sell several related services. A common one is collecting. A collection office run in connection with a credit bureau is likely to concentrate on the more difficult accounts and to be concerned particularly with

tracing skips, i.e., credit buyers who have deliberately disappeared from their last recorded addresses with substantial sums owing merchants. A bureau may also run a rehabilitation service intended to help embarrassed creditors back on their feet financially, and it sometimes organizes campaigns to teach the public the nature and importance of a good credit standing.

Credit bureaus differ not only as to the kinds of information they provide but also as to the speed with which they provide it. The quickest service checks the bureau's card file while the inquirer holds the phone. The bureau may also make a quick telephone check of one or two items of information given by the applicant, or make a trade clearance by telephone and call back its report, all of this being done while the customer is waiting in the store. More commonly the stores mail inquiries to the bureau on specified cards or forms. The bureau then makes the check and mails back its report. Ordinarily the inquiring store receives its report on the second day after making the inquiry, but in times of personnel shortage or in periods of great seasonal activity the report may be somewhat delayed. A few bureaus issue books rating the people of their community, such as the Yellow Book issued each year by the Minneapolis Credit Exchange. Merchants first check an applicant in the manual. If they want more information they can then check with the bureau directly.

Limitations of Credit Bureaus' Services.—The information provided by credit bureaus has important limitations. Ordinarily it will report only that other stores have made inquiries concerning the same individual or have had bad experiences with him. The adequacy of its files thus depends upon the cooperation and good faith of the stores belonging to the bureau. One of the principal difficulties of bureau managers is to keep their store members reporting regularly and without undue delay upon their bad accounts. Occasionally one will run into abuses, as where a merchant asked for information on one of his good accounts gives a bad report and sends out a salesman to see if he can capture the sale. Retailers sometimes refer to this practice as "body snatching." There have also been instances where merchants gave good reports on bad accounts in order to injure their competitors. Such practices are more likely to appear when merchants deal directly with each other rather than through a bureau. There has been a considerable improvement in ethical standards in this regard over the years.

The data available in a credit bureau's files are necessarily out of date to some extent. They cover past transactions and inquiries and are not completely reliable as guides to the present or the future. Also, bureaus usually have records only on people who have already bought

or tried to buy on instalments. Their best data concern the older and more settled members of the community. This means that their utility is somewhat limited for organizations such as jewelry and clothing stores who do much business with young people making their first instalment purchases.

The Extent to Which Merchants Use Credit Bureaus.—Merchants differ widely in the extent to which they use credit bureaus. About two thirds of the merchants interviewed by the present writer said that they checked all applicants for credit who were making their first purchase from the store, and all "reopens" of paid-out accounts where a considerable period, say a year or more, had elapsed since the store's last contact with the customer. Very few merchants reported that they made no checks at all through the bureaus, just as very few went to the opposite extreme of checking all accounts, including those currently on the books. A good many stores checked only those applicants for credit amounts vaguely described as "large," and more particularly applicants for large accounts made by people new to the store. An appreciable number restricted their checks to applicants they had some reason to suspect as being doubtful.

Some instalment merchants refuse to join credit bureaus or to participate in their work in any way. Others join, but do so only as a matter of form and make little use of the bureau's services. Such stores may refuse to give the bureau much information about their clients. The large, well-established, successful instalment merchant argues that through a bureau he will give his competitors, and especially the new ones, a great deal of information for which he will receive very little in return. Such a merchant sometimes says that the only effect of his giving information to a bureau is to help build up competition against himself.

CHAPTER 15

CREDIT STANDARDS

Controls of the sort discussed in Chapter 14 can operate only against a background of credit standards. Each enterprise needs such standards to guide its acceptance and rejection of customers from among the possible applicants. In effect, it must decide how large a loss ratio to accept, and it must translate this into the acceptance, rejection, collection, and adjustment of specific accounts. If it does not make such a decision explicitly in advance, it must at least work out a satisfactory policy by trial and error.

Very little specific information is available as to how merchants and their credit managers establish standards in this sense. Questioned, a merchant is likely to say merely that he conforms to the practice of his trade. One of the standard textbooks puts it as follows: "Given a certain volume of business to handle, the credit man must turn his accounts into cash with just as much shrinkage from bad debts as is customary in his line, and in no longer time than is usual." [1] Such a guide suggests a practicable procedure for establishing standards to newcomers in a trade, but has no considerable utility in indicating how the trade arrives at its conclusions concerning what is desirable, the extent to which individual merchants depart from the standards, and the circumstances that justify their doing so.

The Loss Ratio and the Gross Margin.—Setting an acceptable loss ratio entails balancing the pull of many related factors. Very important among these is the store's gross margin, so defined as to include not only the maintained markup but other types of revenue from the sale, such as credit service charges, reserves, packs, and the resale value of goods repossessed. If a store's competition is such that it can obtain a high gross margin in this sense and still do a satisfactory volume of business, it may accept extremely high losses on bad debts, perhaps as much as 10 per cent of its gross sales, and still come out with a net profit. The practice is sometimes attacked as undesirable socially, on the ground that it tends to penalize good customers by making them

[1] B. W. Griffin and H. C. Greene, *Installment Credits and Collections and the Installment Market*, p. 15.

pay for the misbehavior of bad ones. It is sometimes profitable, however, and one can argue that no one is penalized if the net effect is to reduce unit costs by sharply increasing the volume of sales. Of course, if the full gross margin is rarely collected from any customer, the good-pay ones being given a discount and the bad-pay ones being permitted to get away with defaults, the gross margin is fictitious and has little meaning.

Some trades deliberately push their sales to the point of taking high losses. Thus Seligman reported receiving statements from certain book publishers that they set a very high rate of gross margin and pushed sales to the point where as many as 20 or 30 per cent of the total purchasers defaulted on at least part of the payment.[2] The feasibility of such plans is, of course, greater where the seller has a strong monopoly position, as with copyrighted books. It is also significant that once a book has been set up, additional copies can be printed with relatively small additions to out-of-pocket expense, so that sharply cut prices will still be profitable. In most trades the pressure of competition from merchants who do not take exorbitant markups will force competitors to get their profit out of merchandising all units at reasonable price levels.

High gross margins may reflect primarily the store's selection of customers. If an enterprise deliberately caters to poor risks who cannot pay cash and will not be accepted as credit customers elsewhere, it must charge a higher-than-average gross margin. An example of this sort of merchandising is a chain of instalment clothing stores that some years ago operated 90 stores in more than 20 states, with an annual volume of more than $6,000,000.[3] In this chain, bills not fully collected within three months after the sale were transferred from the store to the main office and put in suspension. The amounts put in suspension averaged about 28 per cent of gross sales, and of the suspension accounts only an additional 3 percentage points could be collected by the main office. Of the $6,000,000 gross sales reported by the company, approximately $1,500,000, or 25 per cent, thus represented the write-off for bad debts. The company had a markup of about 150 per cent on cost or 60 per cent on retail. In spite of markdowns on slow sellers and the large credit losses, the company made very substantial profits.

From a social point of view, a difficult question arises as to whether such low-grade risks should be encouraged or even permitted to buy on credit at all. This question will be considered shortly. One may also

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2 E. R. A. Seligman, *The Economics of Instalment Selling,* Vol. I, p. 206.

3 B. W. Griffin and H. C. Greene, *Installment Credits and Collections and the Installment Market,* pp. 37, 38.

doubt that such a business will be profitable in the long run. The subsequent history of the clothing business has made it clear that no considerable number of stores can operate profitably on such a basis. Other more reputable and more economical operations have been able to take over most of the trade. That the opportunities for making money out of this kind of instalment operation are not all gone is indicated, however, in interviews the present author has had with some merchants. Such stores, in effect, live on the turndowns of higher grade stores. They may use severe collection methods, but usually their collections are not so much severe as close and persistent. For example, house-to-house collections would probably reduce write-offs, but with the penalty of substantially increasing collection costs.

The Loss Ratio and the Volume of Sales.—Another very important management factor is the relation of the loss ratio to the volume of sales, and indirectly to unit costs. Over and over again merchants will tell an interviewer some variant of the statement that they cannot afford to get a low loss ratio at the expense of a large reduction in volume. The standards set in the credit office must bear some relation to the store's opportunity to reduce unit cost and increase unit profit by increasing the volume it does with a given staff and given facilities.

The principle is put in many different ways. One credit man interviewed by the present writer expressed regret over his credit standards and remarked, "The boss wants volume, so we generally grant rather than withhold credit on the marginal cases." A jewelry retailer, whose loss ratio is considerably higher than normal, said, "Unless we have a loss ratio between 5 and 6 per cent of gross sales, we feel that we are not getting enough business. It is only when the loss runs above 6 per cent that sales begin to be adversely affected by high prices." Still another merchant has worked up an illustration with hypothetical figures admittedly higher than normal to demonstrate his thinking:

A concern does $1,000,000 of business with 40 per cent gross margin and a 5 per cent write-off. The following year it cuts its loss ratio to 2½ per cent by rejecting 10 per cent of its business, which would be incredibly good credit selection. The following would be the result:

	Business	Gross Margin	Write-offs	Net
1st year	$1,000,000	$400,000	$50,000	$350,000
2nd year	900,000	360,000	22,500	337,500

The first year is better despite the much higher loss. Furthermore, although the lower volume of business would lead to lower direct expense (delivery, collection costs, and such), it would also mean a reduced carrying-charge income and a thicker spread of fixed overhead per dollar of business.

It should be noted that the relations between volume and unit cost in retailing have not been well worked out. In any given store, however, it is often possible to do a considerably larger volume of business than is being done, without a proportionate increase in cost, so that the temptation to accept substantial write-offs as a way of achieving an increase in volume is very strong. Furthermore, since credit is commonly considered a device of sales promotion, the merchant may compare the cost of write-offs with what he would have to pay for other sales promotion devices in order to obtain the same volume.

Other Factors Affecting the Loss Ratio.—A third factor to which the loss ratio must be related is the cost of collection. Although the discussion thus far indicates that write-offs reflect primarily the credit policies of a retailer, they also reflect his collection policies. Collection of the last 2 or 4 or 6 per cent of the accounts, where it is possible at all, may involve very substantial costs and severe methods. A low loss ratio may indicate that the store is incurring excessively high costs of collection and treating its marginal customers roughly. Alternately, a high write-off may indicate that the store is restricting itself to relatively inexpensive methods of collection and treating delinquents gently. Merchants differ widely among themselves in the extent to which they accept write-offs in order to avoid collection costs. Many of those interviewed expressed the opinion that collections should be pushed beyond the point where the receipts cover the costs involved in order to maintain the discipline necessary for successful operation of credit as a social institution. Most credit men and their employers, however, seem to feel that they should push collections only to the point where further efforts will cost more than they will recover. The control of losses beyond that point, they say, should be made in the granting of credit and handling of collections in the earlier stages of the contract.

The write-off regarded as acceptable is also related to the costs of investigating and controlling applicants. It may be cheaper to accept accounts fairly freely and, along with them, a relatively high percentage of loss, than to do a thorough screening. It may be cheaper, that is, for the merchant to accept the aggregate loss to be expected from a group of customers of any particular type or class than to try to identify all the individuals who are likely to cause the loss.

A final factor influencing the loss ratio is the kind of merchandising the store wants to do. For example, if it permits "take-withs" of considerable amount with a minimum of checking, it will have to accept a somewhat higher loss on its credits. Here again the loss may be considered a promotional expense to be offset by decreases in unit costs caused by a resultant expansion of volume.

The Loss Ratio and the Selection of Customers.—The setting of an acceptable loss ratio is sometimes thought of as being accomplished by selecting risks from among those who apply for credit, and setting terms for those accepted. More important are the policies that determine, in effect, what elements of the population shall be solicited for trade by the store. Careful selection of customers from the applicants, and appropriate terms, will reduce the danger of customers' failing to pay because they cannot or because they simply walk out on their obligations. It is agreed, however, by most of those to whom the present author has talked, that these controls operate within limits imposed by the more fundamental choice of the economic and social classes the store expects to serve in its sale of goods. The retailer cannot avoid his share of the risks that arise for his customers from seasonal, cyclical, or random fluctuations of income, from loss of employment, and from levels of income that leave little margin for emergencies. The loss ratio is thus set in a real sense not by the credit office but by the "top office" when it locates the store and chooses the kinds and qualities of goods to be carried, the kinds of sales promotion to be stressed, and the advertising media to be used. The credit office performs its functions within the limits set for it by these high policy decisions.

The situation is illustrated by the following hypothetical figures:

	Percentage of Trade with Customers in Each Class	
Class of Customer	Store I	Store II
A (1% loss)	10	50
B (5% loss)	50	40
C (10% loss)	40	10
Total trade	100	100

Store I will have a loss on its volume of 6.6 per cent. Store II will lose 3.5 per cent. If Store I can identify in advance and eliminate all Class C customers (an almost impossible achievement), it will reduce its loss to 4.3 per cent but will experience a drop of 40 per cent in its sales. If Store II can eliminate Class C customers, it will reduce its loss to 2.8 per cent while suffering a reduction of 10 per cent in its volume.

Marginal Credit Buyers.—Critics of instalment selling sometimes say that it is carried too far down the economic scale. This in a very fundamental sense, raises the problem of what constitutes "soundness" in credit, a problem to which we shall come shortly. Meanwhile it is necessary to realize that elimination of the marginal credit buyers would mean elimination of a great many individuals. In the absence of instal-

ment buying, a large proportion of these individuals would find it very difficult, if not impossible, to buy durables at all. If they did buy, they could do so only with very long delays in consumption. If all stores refused to take the risks, as some credit men urge, it is doubtful whether the policy could stand up under the resultant social pressures. Too many people would be adversely affected.

The store can, of course, refine its selection of customers somewhat further than by its general policies alone. One way to do so is to classify occupations according to the amount of credit risk they entail for sellers, and to hold down sales and terms or refuse to sell altogether to applicants who fall into the most doubtful groups. The store may handle the situation, not by turning down specific applicants, but by refusing to sell to people living in certain areas inhabited predominantly by, say, mill workers, or foreigners, or Negroes, or some other proscribed group.

The Proportion of Applicants Rejected.—What proportion of the country's applicants for instalment credit merchants reject cannot be determined from available data. Although individual merchants give "off-the-cuff" estimates that they turn down 5 or 10 or some other per cent of those who apply for credit, the present author has found no comprehensive statistics on the percentage of applicants rejected. Most merchants apparently have no interest in this figure. Only one or two stores reported making any systematic effort to keep records on the subject, although an analysis of the so-called "door check" made by many retailers might throw some light on the subject.

One cannot easily identify rejections in instalment selling. Very often the store, instead of formally rejecting an applicant, "sells him down," that is, persuades him to make a somewhat more modest purchase, or to buy part of what he wants immediately and postpone purchasing the rest, or to make a larger down payment, or to make a deposit and build up an adequate down payment while the merchant holds the item, or perhaps even to pay cash. One of the responsibilities of the credit interviewers and salesmen is to revise any proposed transaction as may be necessary to "save the sale." Even if the customer has left the store by the time the papers reach the credit office, he is not usually rejected out of hand. He probably will be invited to come in and talk matters over. Every effort will be made to see if an acceptable trade can be worked out, including substitution of a layaway for an instalment sale. If, in the end, no trade takes place, the customer may be not so much rejected as led to see for himself that he should not make the purchase. The transaction may fail, also, not because of

difficulties over credit but because he likes another merchant's offering better.

Stores that aggressively solicit business from credit buyers without exercising much selectivity in choosing prospects are likely to have a high turndown rate. Even here severe rejections do not necessarily take the form of refusing credit directly at the time of purchase. One mail-order house that specialized in selling on credit by mail before the war followed a policy somewhat as follows.[4] Out of 100,000 requests for its catalogue, the company rejected about 8,000 because they were outside territories that the company wished to serve. The remaining 92,000 were invited to submit credit applications, but only 53,000 did so. It is impossible to say how many of those who failed to return the cards would have been accepted, and how many eliminated as undesirable risks, had they applied. Of the 53,000 who returned cards, 25,000 were rejected, leaving only 28,000 out of the original 100,000 who received the catalogue. Only a part of these 28,000 would eventually want goods, and these were still subject to control as regards the terms granted them. The formal rejection rate for these would be very low because of the prior large rejection of potential customers.

Formal rejections, then, do not give a true picture of the proportion of customers who fail to receive the credit they first ask for. It is hardly surprising, therefore, that merchants who do venture guesses as to their rejections vary widely in the figures they give. For the immediate prewar years, furniture merchants who would give any figure to the present author estimated rejections at anywhere from 1 to 12 per cent of the applicants. Department stores estimated theirs at anywhere from 7 to 15 per cent. Jewelry stores estimated anywhere from 10 to 40 per cent. Some would give no specific figures. They contented themselves with some vague expression such as "very few" or "a good many."

For cash loans, outright rejections have more meaning than they do for instalment selling. They run to very high percentages. Out of 3,552,694 applicants to the Household Finance Corporation in 1933–1937, only 2,268,170 (or 64.2 per cent) received loans. Out of 302,492 applicants to the American Investment Company of Illinois, only 229,278 (or 75.9 per cent) received loans. Particularly noteworthy is the small proportion of new applicants receiving loans. In the Household group only 33.2 per cent, and in the American Investment group only 57.2 per cent of the new applicants received loans.[5] Similar data for industrial banks showed an outright rejection rate of about 25 per

[4] J. M. Baskin, *Credit Selling by Mail*, p. 10.
[5] R. A. Young, *Personal Finance Companies and Their Credit Practices*, p. 73.

cent of the applicants for loans, but the companies varied greatly.[6] Commercial banks also vary widely in their rejection rates on personal loans. Chapman reports that "most" of the bank from which he received figures fell within the range 1 to 25 per cent of applicants rejected, but there were a few who "rejected much more." [7]

Reasons for Rejections.—Where data on rejections are available, reasons for them are not always easy to classify. An individual is likely to be denied a loan for a combination of reasons, and the one specifically mentioned may or may not be the controlling one. These facts doubtless help to explain the scarcity of statistical data on the subject. Chapman, analyzing the records of a large metropolitan bank operating a personal loan department, gives some indication of the sorts of thing that lead to rejections.[8] Of the 1,713 rejections analyzed, 43.9 per cent apparently grew out of the credit officer's judgment that the proposed loan standing by itself went beyond the means of the applicant to repay (summarized under the phrase "weak statement"). An additional 11.3 per cent were turned down because the loans would lead the borrower into an overextended credit position ("too much borrowing," "comaker in open legal account with others," and "borrower in open legal account with others"). Most of the remaining rejections apparently were based on a bad credit record or the applicant's failure to disclose fully his obligations elsewhere.

The Social Problem of Determining an Acceptable Loss Ratio.—Behind the merchant's decisions as to his loss ratio and its translation into specific day-to-day credit routines lies the problem of determining what sorts of losses credit sellers as a class ought to take. Here we come to an ill-defined but controversial and widely discussed problem: What is "sound" credit? The problem is one not only of determining what an enterprise will find most profitable in a given transaction or in the long run, but also what is socially desirable. It impinges upon many other problems concerning the social effects of instalment buying to which we must give considerable attention later on. It concerns itself both with the proportion of his weekly or monthly income an individual consumer can wisely commit to a set purpose, and the length of the maximum period in the future for which he should commit himself.

Analysts commonly cast the discussion in very general terms, referring to the factors from which risks of loss arise. As one author says:

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[6] R. J. Saulnier, *Industrial Banking Companies and Their Credit Practices,* pp. 7, 45.
[7] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit,* p. 93.
[8] *Ibid.,* p. 112.

In credit studies the essential elements of risk are usually grouped into a few broad categories. Some writers speak of the three "C's" of credit—character, capacity, and capital; others refer to moral risk, financial risk, and cyclical risk. In the consumer financing studies of the National Bureau of Economic Research, risk elements in instalment credit have been segregated into such groups as personal characteristics, moral characteristics, vocational characteristics, etc. Although such groupings are generally accepted, some ambiguities and misunderstandings of terminology are usually involved. For example, there is no standard notion of the meaning of moral risk. To some people the concept appears narrow, referring only to personal integrity and social respectability; to others it has a much broader meaning and includes the notion of ability—ability to earn a livelihood, ability to meet problems and make decisions, ability to handle financial matters. On the whole, however, the terms are used to create general impressions; when more specific delineation is needed, other terms are ordinarily employed.[9]

Who Ought and Who Ought Not to Buy on Credit.—Instalment sellers and financing agencies reach a wide diversity of conclusion and practice on these matters. Extreme conservatives believe the whole foundation of instalment buying to be wrong. They believe it violates a basic principle—that only a minority of the population is entitled to credit. This view may take the form of arguing, tacitly or explicitly, that business generally should be done for cash and that any departure from cash operations must justify itself. In extreme form this attitude merges into the simple snobbery of the credit man whose feelings were outraged by the thought of "credit departments catering to cooks, washwomen, and Mexican section hands." [10]

There probably is no way to compose the sharp divergence between such views and those that regard consumer credit with a more friendly eye. Few commentators hold to the extreme positions. Most would hold, rather, that instalment buying must stand or fall upon its central function as a device to provide a credit service by means of which many members of the general public can buy durables even though they would not have been accepted as charge-account customers under the traditional rules of department and specialty stores. The task of the instalment credit man presumably starts with acceptance of this as the function of instalment buying, and goes on to consider what credit standards are sound and what are not within the limits of this assumption.

Limitations Upon Credit Buying by Consumers.—In practice, credit managers and their advisors often fall back upon various rules of

[9] D. Durand, *Risk Elements in Consumer Instalment Financing,* p. 44.
[10] L. Meyer, "What's Ahead for the Credit Profession in Retailing," *Credit Management Year Book: 1940,* p. 20.

thumb to set limits for their customers. For example, the periodic instalments payable by a consumer in any one store, it is sometimes argued, should not exceed 10 per cent of his income during the interval between payments. The payments due in all stores combined, including charge accounts, should not exceed 20 per cent of his income. Sometimes these percentages are related to the income of the family's principal wage earner rather than to that of the applicant himself or to the aggregate income of the family.

They may be refined by some statement of the maximum period for which a consumer can obligate safely even these percentages of his income. Thus, one authority maintains that the total outstanding obligations of a family for cash loans and purchase of goods should not exceed 10 per cent of its income over a period of twelve to twenty-four months. Presumably, the precise point at which the limit is to be set depends upon the level of income, since he also holds that families with very low incomes should be held to less than 10 per cent of twelve months' income.[11] The American Bankers Association sets much more generous limits for credit in the sale of automobiles. It feels that a man may safely obligate himself to pay 15 to 30 per cent of his income for a car, the precise maximum depending in any instance primarily upon the number of his dependents.[12]

Often a rule of this type is put in much less specific terms. It may be held that in buying durables on time a consumer should restrict his obligations to an amount such that the excess of his income over "necessary" expenditures will cover his payments, and that the payments be completed in a "reasonable" time. Such rules, while not very exact, also are not very arbitrary, as are those which undertake to establish specific percentages. They have some utility in making it easier to avoid the more extreme forms of laxity.

The Relation of Resale Value to the Consumer's Obligation.—Most widely debated, perhaps, among problems having to do with soundness in instalment buying is the relation between the size of the consumer's obligation and the repossession value of the merchandise he buys. All loans have some element of risk. In business lending it is commonly expected that as an offset to this risk the borrower will have assets against which the lender can levy if necessary. These assets may or may not be the specific goods bought with the money borrowed. Often the borrower puts up additional security in the form of collateral. The most conservative statements of the principles that should govern instalment selling apply this rule literally to consumer lending.

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[11] C. W. Phelps, *Controlled Instalment Credit*, p. 13.

[12] American Bankers Association, *Bank Manual on Automobile Financing Dealer Plan*, p. 8.

For example, one student differentiates the market value of goods in the event of their resale from their use value to consumers.[13] He then argues that in an instalment transaction each of these values should at all times exceed what the consumer owes on the purchase. The down payment should cover the decrease in these values suffered by goods when they are transferred from business inventory to private use. The frequency and size of payments and the length of the payment period should be so arranged that at all times market value and use value easily exceed the value of the unpaid instalments. How to determine the use value is not made clear; there also is no clear statement here, or in most other writers' comments, as to whether resale value should be taken as the price another dealer would pay for it, or what another consumer would pay, i.e., resale at wholesale or at retail.

For nondurable goods these rules obviously cannot apply, since such goods lose nearly all their market value when they go into use. Two alternative rules are, therefore, proposed for these goods.

1. The down payment should at least cover the retailer's landed cost plus the carrying charge. The logic in this rule is not immediately apparent.
2. The down payment, the length of the contract period, and the frequency of payments should be such as to make the collection percentage equal to the average collection percentage on charge accounts. This proposal really begs the question of soundness, since in effect it merely asserts that nondurables should be sold only on charge-account terms and that average charge-account terms are sound.

With minor variations in detail, rules of this sort are supported by most of those who argue for "sound" credit principles in instalment selling. They nevertheless are not completely persuasive. Maintenance of a sound relationship between the outstanding obligation and the surviving use value is obviously desirable, but it is difficult to do in the absence of effective measures of use value. Soundness in the sale of durables on credit would seem to depend primarily upon (1) whether the consumer, given his financial circumstances, is wise to spend any of his purchasing power for the services provided by durable goods; (2) whether he can safely obligate himself by contract to meet specified payments at set intervals far enough into the future to cover the price; and (3) assuming that rental is a feasible alternative, whether the cost of buying will be substantially lower than that of renting. Arbitrary ratios throw little light on these matters.

13 C. W. Phelps, *Controlled Instalment Credit*, pp. 15–17 and 28–32. See also T. H. Smith, *The Marketing of Used Automobiles*, p. 201.

Instalment Selling and the Principle of Self-Liquidation.—In the marketing of commercial and industrial equipment on instalments, the concept of soundness presumably relates the size and frequency of the payments and the length of the repayment period to the income-producing capacity of the equipment purchased. If the credit is self-liquidating in this sense, it is sound, and the resale value of the goods becomes secondary.[14] Occasionally a durable good sold to a consumer is used at least in part for business purposes, so that the credit can be evaluated by relating the schedule of repayments to the monetary income produced. Such a situation is exceptional, however, or represents too small a part of the use of the good to have any great significance. Ordinarily the increase is in psychic income, not in monetary income.

There is thus no important element of self-liquidation insofar as the monetary obligations are concerned. The importance of the income-producing capacity of durable goods is thus merely another way of saying that the product is not consumed as soon as it is bought but retains a value in use and a value in resale. It introduces nothing new into the discussion of the extent to which these values should be made a basis for evaluating the soundness of the terms in any given sale. It offers no new clues as to how the depreciation of surviving use value in the product over the planned payment period can be measured so as to set it alongside the decreasing unpaid balance of the purchase price. Use value can still be little more than a guess as to how willing or reluctant the buyer will be to continue his payments throughout the contract period.

Practical Difficulties in Determining Resale Value.—Even if the principle be accepted as sound, it is not always easy to maintain a close relationship throughout the life of the contract between the unpaid balance and the resale value of the goods. Automobiles offer perhaps the least difficulty, since makes and models at any given time are few and the market for used cars is well organized; but the principle still presents difficulties. As the cars grow older, although everyone knows the makes and models, the condition of individual cars becomes far from standardized. For household appliances, such as refrigerators, washers, ranges, and radios, the situation is still more difficult because the resale market is not well organized, and brands and models are numerous. With still other durables—notably furniture and jewelry—and with semidurables, the problem becomes very formidable indeed. Such goods either have no appreciable repossession value, or such value as they have is not easily appraised.

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14 R. J. Saulnier and N. H. Jacoby, *Financing Equipment for Commercial and Industrial Enterprise*, pp. 5 and 86.

In this situation, doubtless, lies one important reason why banks and sales finance companies have found it easier to finance automobiles and major household appliances than to finance other goods. Working at a distance from the goods and the individuals involved, these agencies must rely much more heavily upon the collateral value of the goods as security than does the retailer himself, who is in close touch with all aspects of the transaction. Furthermore, the retailer is in a much better position than the financing agency to appraise the market value of unstandardized goods such as furniture, to provide resale outlets through which to recover the appraised value, and actually to repossess such items.

Maintenance of an equivalence between debt and resale value is further complicated by the danger of unforeseen changes in prices. Thus the first introduction of radios virtually destroyed the resale value of many phonographs on which instalment payments were still due. Similarly, a collapse of used car prices in 1938 left many buyers owing appreciably more than their creditors could realize in the event of repossession. Sometimes the consumer owed a balance larger than the full price he would have to pay if he were to go into the market and buy the same car at current retail prices.[15]

Government financing of houses in the 1930's raised another difficult problem in applying the resale value principle, with its plans for selling complete houses, including such appliances as refrigerators and washers, and even furniture, on terms of 25 years or more. If the appliance or the piece of furniture is taken as a unit for separate valuation, such terms are extremely unsound. Does the situation change when the entire house is taken as the unit? Whether credit granted under such arrangements is sound obviously depends in part upon the effects of the arrangement in building up or cutting down the ratio of outstanding debt to use value and to resale value. Some of the agencies established bookkeeping systems that amortized balances due on the movables in 5 to 7 years by weighting the division of the periodic payments received from the purchaser. It is doubtful whether this had anything more than a bookkeeping significance.

The soundness of the plan also depends upon whether the consumer's income, occupation, and residence are stable enough to make it desirable for him to tie his income to a house for so far into the future; upon the wisdom of the expenditure in the light of other claims upon his resources; upon the relative cost of renting and buying; upon the importance to him of gaining flexibility through buying his housing in units smaller than the full packaged house; and upon the extent to

15 T. H. Smith, *The Marketing of Used Automobiles*, pp. 76, 77.

which it is desirable that he change his housing from time to time as his family goes through its normal life cycle.

The True Security Underlying Instalment Contracts.—Although the points just discussed are important, it is clear, as was said, in the discussion of the instalment contract in Chapter 7, that the true security under instalment contracts lies in something much more fundamental than the legal right of repossession and the maintenance of a situation such that the buyer stands to lose something if he quits paying and gives up the goods. The true security lies in conditions of life such that the vast majority of instalment buyers never become conscious of the sanctions back of the debts they owe because they pay as they go along with nothing more than a few jogs of their memory by the sellers. This means that they keep their buying within limits appropriate to their circumstances. It also means that they have incomes large enough to permit their buying the satisfactions provided by durables, and stable enough to permit their taking the responsibility of contracting to buy the full stock of such satisfactions stored up in any specific item of goods.

Repossession value thus must be considered the security behind instalment buying only in a limited sense. It helps the seller collect from a few unreliable debtors and may be an active weapon for protection against dead beats and skips. If merchants resorted to it often enough to interfere seriously with the basic function of instalment buying—to help move goods into consumption—the whole system would collapse of its own weight. Instalment buying works because it helps to provide the goods consumers want at prices they can afford, on terms that do not assume their jobs, wages, and health to be better than they are, on the average. If a society affords stable livings for the bulk of its people, it can support a large structure of instalment buying. So long as it keeps on operating, most people will continue to receive incomes and pay their debts with a minimum of legal compulsion.

Paternalism in Credit Buying.—One responsible body of opinion among students of credit holds the seller on credit responsible for keeping debtors as a class within limits they can support. Although they seldom put it in so many words, such commentators, who include both critics and friends of instalment buying, imply that if the credit seller does not set the limits for his customers, many of them will inevitably get themselves into trouble. Some of these observers seem to feel that many consumers are wholly incompetent to manage their affairs, and that they must be protected against their own weakness, ignorance, and folly.

The opinion is by no means universally held. Businessmen, especially the very successful ones, having been steeped in the traditions of laissez faire, are likely to hold that most consumers are well able to look out for themselves. It is the representatives of social agencies, whose daily work is to salvage social wreckage, that are more likely to doubt the ability of consumers to take care of themselves adequately in the complexities of modern markets.

Merchants and the Total Debt Assumed by a Consumer.—Critics often express astonishment at the laxity of a business system which sometimes permits wage earners who have gone through bankruptcy or compositions of their debts to accumulate obligations totaling several hundred dollars within a year or two. Cases are by no means unknown where the payments required to meet the total obligations of a consumer exceed his entire income.

Although the critics find many complicated reasons for the difficulties of the consumers who thus get hopelessly in debt,[16] they often emphasize the failure of merchants and cash lenders to check the accumulation of debts by individuals before the situation has become hopelessly involved. Several difficulties impede efforts to set up controls over the aggregate debt load assumed by individual consumers. Identification of what already has been called the pathological debtor is one difficult part of the seller's problem. These are debtors whose personal and social maladjustment takes the specific form of an inability to control their borrowing and buying on credit. Limiting the seriousness of the difficulties into which reasonably normal consumers can fall by unwise buying is the other part of the problem. Although the first type of difficulty is often desperate and can be handled only through the methods of social case work, both can to some extent be controlled by the more effective exchange of experience among creditors.

To that end it is sometimes proposed that credit bureaus should accumulate data about the full debt load being carried by applicants for credit, and that merchants, financing agencies, and cash lenders should all cooperate in providing the data required and in using them for purposes of control. Whether this can be done at a cost acceptable to operators whose unit sales or loans are too small to support very substantial payments for credit investigations is questionable. Since the cost of preventing losses by this means would often be larger than the losses themselves, merchants could be expected to do this sort of thing only for some reason other than self-interest. Having grown up in a social environment generally guided by the assumption that it is up to

[16] See Chapter 21.

each individual to look out for himself, merchants themselves do not ordinarily feel that as businessmen they have the sort of responsibility visualized by such critics of the instalment system. If they are to accept this view, they will have to develop a much greater degree of paternalism toward their customers than they now feel is either desirable or feasible.[17]

[17] A. A. Heckman, in *Conference on Consumer Credit in the National Emergency, Proceedings,* p. 91, offers a particularly stimulating discussion of the problems involved in establishing a higher degree of social responsibility among credit lenders and sellers. His ideas, especially those having to do with consumer debt as a form of social maladjustment, are discussed more fully in Chapter 21 below.

CHAPTER 16

COLLECTION PRACTICES AND PROBLEMS

Collection Routines of Retailers.—The detailed routines of collection from instalment buyers who pay without substantial delinquency require no considerable discussion here. Anyone interested will find them described in considerable detail by any standard text on retail credits and collections. Retailers use a great many different systems; several enterprises make their profits out of devising systems and applying them to the needs of particular stores in return for a fee or as an incident to the sale of particular kinds of equipment or supplies. The choices made turn primarily upon such considerations as convenience for store and customer, economy, the maintenance of accurate records, and the ordinary precautions required in handling money. For present purposes a few highly generalized statements will suffice.

Just before the war there remained a considerable survival of house-to-house collection intermingled with house-to-house selling. This plan obviates the need to go downtown or to mail in payments, and many customers seem to prefer it. It is expensive to the store, however, and annoys some consumers, so that it cannot be used universally. Some merchants favor it, especially old-timers in the business who grew up under a system of house-to-house canvassing and merchants who cater to foreign-born segments of the population, to industrial workers, and to families that do not control their family finances very effectively but will pay reasonably well if called upon regularly at times when they can be expected to have money. Distributive organizations that specialize in house-to-house canvassing naturally favor the plan, since their whole operation is built around the system of maintaining a route balance, as we have seen.

During the war shortages of merchandise and manpower virtually stopped house-to-house selling and collecting by operators of stores, although some of the specialized organizations continued their businesses under difficulties. Flush incomes made it easy to collect in the store or by mail from customers who previously had paid collectors. Several years must pass before a final conclusion can be reached as to whether the house-to-house system will be revived by stores on any

substantial scale. Meanwhile it is clear that the war merely speeded up an already existent trend away from the plan. Specialized canvassing agencies have been revived in some areas.

Taking the country as a whole and all types of instalment retailers, most payments probably are made in the stores. This fact has had an important influence in the floor plans of instalment stores, and it results in a layout characteristically different from that of stores whose business is done predominantly for cash or on charge accounts. In its turn, this system is being replaced to some extent by the system of payment by mail. Many merchants still encourage payment in the store; some even give premiums occasionally to bring their customers into the store for payments. The motive is essentially the same as that which has tended to preserve house-to-house collecting. Each payment offers an opportunity to sell the customer something else. As against this advantage, payment by mail usually permits economies. The store can locate its collection office according to its own convenience rather than for the convenience of its customers. It does not need to devote expensive space on the lower floors to nonselling activities. It avoids crowds and lines on days when the community's pay checks tend to cluster.

Presumably, sellers will continue to experiment with unusual ways of collecting. An example is the meter system used for refrigerators by some organizations in the 1930's. The customer could keep his refrigerator in operation by depositing a quarter in a meter at stated intervals. If he made his deposits regularly, he would pay for the refrigerator in accordance with the arranged terms. If he failed to make his deposit, the refrigeration was cut off. Stores differ widely in the extent to which they found the plan profitable.

Because the instalments on most purchases are small, collection costs must be kept low. Under these circumstances few stores undertake to bill their customers or to send out reminders that payments will be due. Many stores do give their customers cards or books of coupons by means of which their successive payments are recorded. These serve to some extent as reminders, although their principal utility lies in making sure that the records of the store and the customer agree as to payments made and balances due. For the most part, retailers rely upon the consumer's memory and integrity. They send out reminders only when payments are skipped. Ordinarily, reminders will begin to go out within 10 to 30 days after a payment has been missed. A good many let longer periods go by. A few follow a very tight collection policy under which they send out a reminder within two or three days of delinquency. Sometimes the credit officer will tag accounts about

which he has some doubts and follow them up promptly if a payment is missed.

Outside Collecting Organizations.—Most merchants make very little use of collecting organizations other than that of the store itself. To serve the convenience of his customers, a seller sometimes arranges to accept payments at some bank or outside office. He also may use this device if for any reason he wishes to reduce the number of visits certain types of customer make to his store. For example, during the war many merchants found themselves making sales to consumers with war-swollen incomes who had never come near their doors before. Fearing a loss of established customers' good will because of the heterogeneous characteristics of the new ones, some stores arranged to collect instalments from the newcomers through near-by industrial banks or other agencies. If these stores find the change in the social stratification of their customers to be permanent, they doubtless will make other arrangements; meanwhile they feel that they have handled a delicate and troublesome problem reasonably well.

Whenever a store needs the aid of outside organizations, particularly in dealing with delinquent and out-of-town customers, it can choose from a variety of agencies. The collection departments of credit bureaus were mentioned in Chapter 14. Merchants ordinarily use them only for the more difficult collections, and especially for accounts that have been delinquent a long time, say six months or more, or where debtors deliberately try to drop out of sight of their creditors so as to avoid payment. Merchants sometimes try to collect through banks, especially when they wish to establish a legal record that a buyer refuses to pay. Where the seller wishes to threaten court action, he may use lawyers in collecting. Finally, in normal times he may turn to any of a considerable number of agencies that specialize in collecting severely delinquent accounts, but many of these are themselves unreliable, hard to collect from, and difficult to control.

Any of these agencies may work for a fee computed as a specified percentage of collections. The percentages usually run high—from 25 to 50 per cent, according to the length of the elapsed delinquency period. Some agencies buy blocks of unpaid accounts from creditors at a small percentage on the dollar and collect as much as they can. Some of them are not so much collecting organizations as traps designed to mulct the unwary retailer. Others are public officials who use their authority to put pressure upon delinquent debtors.

Generally speaking, reputable merchants do not look with much favor on outside agencies. Many merchants never use them. Most merchants use them only as a last resort and even then only for cus-

tomers so reprehensible in the merchant's view that, as one of them put it to the author, "We don't care what happens to them." It is also true, however, that some merchants use outside agencies to apply severe and even abusive techniques of collection under another's name.

The House Agency.—As is true elsewhere in instalment buying, the surface does not always tell the whole story about collections. An example is the so-called house agency. A store sometimes sends letters and notices under the letterhead of a nonexistent enterprise. The outward indication is that the store has referred the accounts to an outside group for collection. Actually the notice is sent out by the store itself, and there is no outside agency in the picture. Lawyers and collection agencies sometimes encourage an analogous practice when they provide printed letters or forms on their letterheads to be sent out by the store itself.

Many instalment sellers and their critics question the ethics of using house agencies in collecting. Like the true outside agency, although often used legitimately it can be used as a cover for rough and abusive collections the store wants to avoid under its own name. It is a device that permits a store's credit man to be on occasion either a patient, considerate friend or the brusque collector.

The Proportion of Slow Payers.—The principal problems and disagreements as to what constitutes proper tactics in collecting arise in the handling of slow payers or delinquent accounts. No reliable statistics exist to show what proportion of instalment buyers fall into the category of delinquency. In offhand estimates, instalment sellers and lenders say that anywhere from two thirds to nine tenths of the instalment buyers will make their payments so nearly on schedule that no follow-up is required beyond one or two perfunctory reminders during the life of the contract. Average collections normally run well behind contract terms, as we have seen, but full payment within a reasonable period can be obtained from most customers without the use of even mild collection letters, telephone calls, and personal visits. Of those who fall behind far enough to require some attention, an additional percentage will come in and make appropriate adjustments.

The remaining buyers, who probably do not exceed 10 per cent of the total and often constitute a considerably smaller fraction, constitute the group to whom persistent, pressing, often elaborate and ingenious collection methods are applied. The residual group which is subject to the strongest pressures is variously estimated at from 2 to 5 per cent. This includes those whose debts will eventually be written off as uncollectible. The percentage will run higher for some of the less ethical stores, as well as for stores that follow a loose policy in letting goods

go out on credit. The percentages vary widely from store to store and in different phases of the business cycle.[1]

Steps in Collecting from Slow Payers.—Although details vary endlessly, the successive steps in collecting from slow, delinquent, and evasive instalment debtors go through well-defined patterns. They start with reminders that assume good faith and simple negligence on the part of the buyer. The basic idea here is that most consumers, when they have become a little delinquent, pay best in response to a prompt, persistent, but good-tempered follow-up. The notices progress by stages through less friendly, less polite, and more aggressive reminders and requests for action. Doubts of good faith creep in. The collector appeals to the customer's sense of fairness, to his pride in a good credit standing, or to his honesty. Eventually the notices drop the mask of good fellowship. They threaten action—to repossess, to execute a wage assignment, to garnishee the debtor's earnings, or to sue for a judgment. Sometimes the store has no intention of going through with its threats, but makes them nevertheless. Similarly, a store may go so far as to bring suit, not because it expects to collect in court but because this action brings some delinquents in to make a settlement. Letters may go out to third parties, such as the customer's employer, his bank, or the guarantors who signed his contract. Very great care must be taken in the various steps, to avoid violating statutory and judicial restrictions upon the use of threats in collecting.

It is in this stage of collection that abuses we shall consider more fully in Chapter 19 are most likely to appear. If all the preceding steps fail, a truck may be sent out to pick up the goods, or any of various possible legal remedies may be applied, or the account may be turned over to outsiders. Some stores simply write off the account at this stage unless the balance is large. They assume that whatever they may collect is not worth its cost in money, time, and ill will.

The precise form, wording, and sequence of notices and letters sent to delinquent debtors vary widely. Many are parts of patented or copyrighted systems sold to merchants. Most credit men have written or bought individual letters that they regard as particularly effective in meeting one or more situations in collection. The sequence of steps also varies in accordance with the judgment of the credit man. Usually there is a routine sequence that can be handled by clerks or minor credit officials, but it may be varied to meet particular circumstances. The

[1] For a number of more or less informed guesses as to the proportion of instalment buyers who require special attention in collecting, see American Bankers Association, *Bank Manual on Automobile Financing Dealer Plan*, p. 13; J. T. Bartlett and C. W. Reed, *Credit Department Salesmanship*, p. 128; C. O. Hardy, *Consumer Credit and Its Uses*, pp. 26, 27; W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 10, 11; and R. A. Young, *Personal Finance Companies and Their Credit Practices*, p. 75.

timing of the various steps varies in different stores, for different goods and for different consumers.

Personal Contacts with Delinquents.—At some stage in the proceedings the credit office makes personal contact with the delinquent debtor. This is likely to be by telephone first, if possible. After that, especially if the store has lost touch with the customer entirely, a collection man or adjuster usually goes out. At one time his function would have been to bring back the money or the goods. Nowadays he is likely to be an adjuster who finds out the reasons for the trouble, makes arrangements for future payments, and tries to get the delinquent into the store for a talk with the credit manager. Many stores instruct their adjusters not to accept money from the delinquents; they do not want customers to form the habit of expecting a collector to call for their payments.

The judgment of the adjuster plays an important part in deciding when more severe action is required and the form it should take. Often he arranges for repossessions where they become necessary. He may actually repossess items that require no truck, as with jewelry and automobiles. Endless variety and ingenuity characterize the work of these men. Although useful in bringing effective pressure on reluctant creditors, they entail some danger because of the difficulty of preventing their slipping over into abusive and perhaps definitely unlawful behavior. This danger is particularly acute where the collector or adjuster receives a percentage of his collections.

Sometimes the creditor does not need to worry about all these procedures because he can take part of the debtor's income directly without formal court action. Thus one store in a mining community visited by the author maintains arrangements under which payments due on instalments are deducted from the buyers' pay checks by the mining company. This is a former company store, now independently owned, but still having the privilege of receiving allotments that the company will recognize. At one time members of the armed forces could allot parts of their pay to stores, but this is now prohibited by law. At least one large credit union has arrangements with the employing organization to which its members belong such that on its larger loans it receives the salary checks of delinquents, who must come to it to collect their pay. The credit union deducts whatever it likes from the pay as a payment to itself.

The Softening of Collection Procedures in Most Stores.—There is some reason to believe that both the collection weapons available to creditors and the collection methods they actually use have grown milder over the course of time. Weapons available to creditors well into the

last century included body execution for debt. Furthermore, mere suspension of credit privileges and the pressure of public opinion against avoidance of debt were relatively powerful in the small isolated communities of nineteenth-century America. As industrialization proceeded, creditors developed substitutes in wage assignments and wage garnishments, building upon the common law of contracts and the statutory process of attachment. These, in turn, were gradually subjected to specific controls, limitations, or outright prohibitions in various jurisdictions.[2]

Merchants themselves long ago discovered that most consumers pay up without threats. A close follow-up, courteous persistence, and a willingness to make adjustments as required to meet the economic situation of the consumer, worked much better than force. The practice of threatening with no intent of follow-up also lost some favor, although it is still used by many merchants, especially in their dealings with the last percentage or two of uncollected and largely uncollectible debt.

Harsh Collection Rackets.—There have in all times been some creditors who insist upon their pound of flesh, and harsh powers have always permitted the development of rackets intended to trap unwary buyers into violation of their contracts, precisely so as to permit application of the harsh methods.[3] These methods are particularly effective and dangerous when applied to situations which mean serious hardship for the debtor. For example, if employers discharge workers when someone garnishees their wages, they play into the hands of the unscrupulous creditors. The victim may be in effect denied an opportunity to make any defense, even against unjust claims.

Some stores are willing to offer their services primarily to the less desirable risks who expect to be pushed hard by their creditors, and who will not pay until collections become aggressive. It must be accepted as surprising but true that some consumers expect harsh dealings and do not resent them. Stores whose procedures take them into court on a considerable proportion of their accounts find that many of those they sue take no permanent offense but come back the next time they want goods. The stores, curiously enough, often sell such consumers willingly, even though they know the chances to be good of having the account end up in a court somewhere. The consumers in question, hav-

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[2] For a discussion of this development see R. Nugent, *Consumer Credit and Economic Stability*, pp. 51-54.

[3] It is this perversion of the legitimate instalment business Mussey had in mind in writing his study of the "fake" instalment business referred to at various places in this study. It is self-evident that the definition of the term "harsh," as applied to collection techniques, will vary from individual to individual. Collection of debts from delinquent debtors is at best an aggressive activity, so that even mild collection procedures may not seem so to the tender-skinned.

ing been "educated" to pay that way, will do so once the ritual has been gone through.

Factors Influencing the Use of Harsh Methods.—Legitimate instalment houses use severe legal powers sparingly even against customers who have themselves violated standards of fair dealing. Many of them never garnishee or file suits for judgments, or forcibly repossess goods under any circumstances. They believe these processes too expensive and the results too meager to warrant the ill will incurred. Even more widespread is a policy of restraint on deficiency judgments. Most merchants either never take such judgments or take them only when the balance outstanding is relatively large or when the buyers abuse the goods flagrantly. A few take such judgments as a matter of routine, at least on their larger transactions, but attempt to collect on them only in exceptional circumstances.

A good many merchants initiate, or threaten to initiate, harsh collection procedures only because by this means they force the debtor to take some kind of action. A debtor can ignore letters, telephone calls, and visits from adjusters; he cannot easily ignore a court summons. Merely getting him into a position where he must do something may be enough to start matters moving toward an adjustment of the account. Their usefulness in these ways, rather than their utility in collecting money directly, motivates many in their desire to retain the full legal powers of strong contracts.

Specialized financing agencies, such as banks and finance companies, are generally believed by those in the instalment business to proceed somewhat more quickly than retailers through the successive stages of collection to severe legal action. This is true especially of repossessions. Such data as are available, although far from conclusive, seem to support the contention. Plummer and Young, for example, describe the policies of one large finance company which reviews its outstanding instalment accounts daily, initiates its follow-up procedure within two to five days of a customer's failure to make any unit payment, reaches the stage of personal calls upon the customer within two to four weeks of the first delinquency, and is prepared to repossess at any time beginning with the first call.[4]

Such companies finance mostly automobiles and large appliances, in the sale of which, as we have seen, lenders commonly place great emphasis upon the collateral as security. Since unit sales are relatively large, the amounts concerned in delinquencies are ordinarily sizeable. Automobiles are relatively easy to repossess. Even under these condi-

[4] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 109, 110.

tions the finance companies ordinarily try to work out adjustments, since they often take losses on repossessions. They are, nevertheless, prepared to repossess quickly if they feel circumstances so warrant.

Merchants whose livelihood depends upon their maintaining a good standing in their communities, whose relations to the buyers are much closer than those of a financing agency, who sell goods that are much more difficult to repossess than automobiles and less valuable as collateral—such merchants nurse their delinquent accounts along and repossess very reluctantly. During the 1930's many of them carried accounts originally written for a year or eighteen months for four, five, or even six years. Their problem often is not how to find and repossess so much as to persuade consumers not to give goods up too easily.

The Frequency of Harsh Collections.—Quantitative data concerning use of the more severe legal powers by instalment sellers are almost nonexistent. Critics of instalment buying have had much to say about "rough" collections, but have assembled very little specific information on the subject. Some figures on repossessions will be given in Chapter 17. For other severe procedures, the author has discovered only two sets of data, both dating to the middle 1930's. One covered 2,500 wage executions against the employees of 174 industrial establishments in various parts of the country. The other covered 10,848 garnishment executions against 4,123 employees of the City of New York.[5] Neither set of data shows the proportion of instalment sales that end in the use of strong collection methods, but they permit some significant conclusions.

If debts for clothing, furniture, household appliances, jewelry, and automobile purchase and operation are taken together, they represent 59 per cent of the number of executions and 46 per cent of the dollar volume of debt represented by the executions in the sample from 174 establishments. In other words, about one half of these executions grew out of defaults on instalment purchases. There is no way to tell from the figures whether the proportion of instalment-sale debts carried to wage executions does or does not differ sharply from that for other sorts of debt. If clothing is eliminated from the instalment list, the remaining items accounted for only 13 per cent of the executions and 16 per cent of the dollar volume.

Two other facts were brought out by the data from the 174 establishments: First, the use of wage executions tends to be concentrated in a few trades. Second, within these trades the habitual and repeated

[5] The period covered was before the passage of the New York Conference Laws in 1940, and so illustrates the situation as it was in a legal framework now revised. The figures are available in R. Nugent, J. E. Hamm, and F. K. Jones, *Wage Executions for Debt,* and P. Blanshard, *Report to the Mayor on Garnishment Executions Against City Employees.*

use of this procedure in collecting tends to be concentrated in a few firms. These are the so-called "bad actors," whose generally harsh and irresponsible methods reflect seriously on the entire instalment business.

Of the 2,500 executions analyzed in this survey, 1,139, or 45.5 per cent, were brought by 147 clothing merchants who represented 16.9 per cent of the 868 creditors bringing such executions. The average number of executions per clothing creditor (7.8) was nearly three times as large as the average for all creditors, and more than four times as large as the average for stores other than the clothing firms (1.9). Of the 147 clothing creditors, 48.4 per cent brought more than one execution. This compares with 39.4 per cent of the cash-loan agencies, 36.8 per cent of the jewelers, 36.4 per cent of the furniture stores, and 32.4 per cent of the automobile dealers. In no other trade did as many as 30 per cent of the creditors bring more than one execution.

The conclusions suggested by this report are that in the middle 1930's instalment creditors, including cash lenders, used wage executions more than other creditors, that sellers of soft goods used the procedure more freely than sellers of hard goods, that liberal use of the procedure was confined to fewer than 8 per cent of the credit sellers and lenders, and that this liberality of use was most marked for clothing stores, which have no goods it is possible for them to repossess effectively in the event of nonpayment.

The survey of municipal employees in New York provided some information concerning the debtors (as distinct from the creditors) involved in wage executions. On May 31, 1936, out of the city's 143,490 employees, 4,123 (or 2.87 per cent) were involved in garnishments, and the number of garnishment executions was 10,848, or 75.6 per 1,000 employees. The number per 1,000 employees varied widely in different departments. At one extreme, only 7.2 of every 1,000 employees of the school and hospital systems were involved; at the other extreme, 86.4 out of every 1,000 employees in the Department of Sanitation were involved. Correspondingly, the number of executions (as distinct from the number of individuals) ranged from a low of 16.4 per 1,000 employees in the Board of Education to a high of 247.3 per 1,000 in the Department of Sanitation.

These figures make clear one important fact—that where garnishments are permitted they are likely to be applied against a significantly large proportion of the working population and to constitute a considerable burden upon employers. Whether city employees as a class are affected more or less than other workers by garnishments there is no way of saying from these data. New York merchants interviewed by the author expressed the opinion that the garnishment rate for munici-

pal employees in that city is somewhat higher than for other workers because of the ease of the process with that group.

It needs to be emphasized, in order to avoid misunderstanding, that these garnishment executions apply to all types of debt, not to debt arising out of instalment purchases alone. There are no data from which to determine the proportion of these executions arising out of instalment purchases.

The 10,848 garnishment executions were filed by 3,273 creditors. However, 2,813 of these creditors (85.9 per cent of the total) filed executions against only one debtor each. They were responsible for 2,927, or 27.0 per cent of the executions.[6] The remaining 14.1 per cent of the creditors filed 73.0 per cent of the executions. Even more striking is the fact that 1.0 per cent of the creditors who acted against more than 50 debtors each (33 all told) filed 4,949 of the executions, or 45.6 per cent of the total. When measured by the dollar value of the original judgments entered, the percentages change somewhat. The 85.9 per cent of the creditors who filed against only one debtor apiece had 46.4 per cent of the dollar value of the judgments. The 1 per cent of the creditors who filed against more than 50 debtors apiece had 32.0 per cent of the value of the judgments. It seems evident that the overwhelming majority of the creditors not only filed few garnishment executions, but did so only on the larger debts. The creditors who filed executions in large numbers on the smaller debts represented a very small minority.

The Repeater Among Delinquent Debtors and Harsh Collectors.—Scraps of information available from other sources reinforce, and to some extent supplement, the conclusions drawn from the foregoing tables. The percentage of workers against whom wage executions for debt are filed is small, and only a part of those against whom executions are taken are instalment buyers. Many of the defaulting consumers who get into trouble are "repeaters," in trouble with several creditors. They often are very heavily burdened with debt. One cannot safely assume that they are all low-paid, humble laborers. Among the New York City employees against whom creditors had taken executions were aldermen, deputy district attorneys, county commissioners, municipal judges, and at least one county judge. Some of these high-salaried employees had been caught by bad investments, but others had mismanaged their personal finances and tried to live beyond their means.

It is also clear that some merchants tend to be "repeaters." The New York studies found that wage executions were filed regularly by

[6] Presumably the difference between 2,813 and 2,927 is explained by an unspecified number of creditors filing more than one execution against a single debtor.

only a small percentage of stores who usually were known throughout the city as unreliable and unethical operators. Another study found that only about 60 out of the thousands of merchants in New York City used wage executions, regularly. Only a dozen or so could be described as using them heavily. Other merchants threaten, but they file rarely, and then as a rule only where customers flagrantly disregard large balances they owe.

Nursing Weak Accounts Along.—For most stores the pressing problem is not when to repossess or to file suit for other relief, but how to nurse weak accounts along until they pay out. The credit man, as his accounts develop, tries to sort delinquents into those who will pay if given time and persuaded to continue, those who cannot pay, and those who probably can but will not unless forced to do so. In dealing with the first two groups, legitimate merchants tend to be very lenient. However, instalment selling is a business, not a charity. Merchants expect to be paid, even if payment involves some sacrifices or some hardship for the customer. They will write off an account as uncollectible only if they can find no other profitable alternative.

Meanwhile, so long as the customer shows good faith within the limits of his resources, he can expect most merchants to adjust terms, accept returns of all or part of the goods with cancellation of the remaining balance, cancel parts of the debt outright, or do anything else within reason to keep the account alive, or, in cases of true hardship, close it out in such a way as to retain the good will of the community and the customer. Maintenance of the delinquent customer's good will is important. The circumstances of individuals change drastically from time to time, and the merchant who holds the good will of a customer in difficulties may reap the benefit later on.

Merchants differ greatly as to the readiness with which they will accept voluntary give-ups by customers who want to relieve themselves of the outstanding obligation. Some merchants accept give-ups without much argument. They believe that a customer who has offered to return the goods will think he has been reasonable, will not feel as strong an obligation to pay out as he did before, and in many cases will eventually default. Other merchants urge the customer to hold on, and offer revised terms to make holding on possible. Under some circumstances merchants may take back the goods, but only to hold them for the customer until he can resume payment. Ordinarily, payments in such cases will be resumed within a few months, but it is not unknown for merchants to hold goods in this way for as much as two or three years.

Dead Beats and Skips.—Although reputable merchants try to build up and sustain a reputation for being fair and reasonable, they try to avoid getting a reputation in the community of being "soft." Whether they sell on instalments or on any other plan, they make their livings by selling goods to reasonably satisfied customers at profitable prices. If they are to maintain their standing and their business, they must take the risks that go with instalment buying. They must also (and this is virtually the only place at which instalment sellers unite in taking a stern attitude toward delinquents) deal vigorously with those who show bad faith.

These are commonly referred to by the merchants as dead beats and skips. They include some customers who simply refuse to pay out and who challenge the merchant to sue. More commonly, however, they are people who disappear without paying for or offering to return the goods they are buying. Stores must exercise some care in separating customers who are merely negligent from those who deliberately try to defraud. For the deliberate skips, instalment sellers have no feeling except that they deserve the most severe treatment it is possible to give them. The situation is subject to abuse, since the merchant decides for himself who cannot pay, who has been merely careless, and who is trying to evade his obligations. A greedy, grasping, or merely coldhearted merchant may make very severe judgments as to how great a sacrifice a debtor should be willing to make in order to pay his obligations. Even a just and lenient seller must adopt the attitude, if his business is to survive at all, that debt is a serious obligation not to be shuffled off lightly because payment has become a bit awkward or difficult.

Whatever his individual definition may be, the merchant who finally classifies a customer as a skip will ordinarily go as far as he can lawfully to collect or bring the customer to justice. Expenditures may be made a good deal larger than what the merchant can hope to recover from the account. Such losses must be considered an expenditure by the merchant for the protection of the institution of instalment buying or a way of reducing outright fraud. Only a few merchants, those who charge very high markups, will accept deliberate skips without expending a great deal of effort to find the delinquent customer and collect from him. The principal exceptions are very small balances, which a good many merchants feel they can afford to overlook.

Skip Tracing.[7]—Techniques of skip tracing have been elaborated by many merchants and collection agencies. Although the basic ideas are pretty well standardized, since they consist primarily of persistence in following down all possible leads, the opportunities for individual

[7] Skip tracing occasionally degenerates into deception and fraud. This aspect is treated in Chapter 19.

ingenuity and aggressiveness are very great. In practice people cannot easily disappear without leaving some trace. Relatives, employers, neighbors, associates, landlords, moving companies, and the post office all offer opportunities for picking up clues as to where the skip has gone. The sellers usually follow up such leads themselves, since most skips turn out to be people who have been negligent rather than fraudulent and are found fairly easily.

If necessary or desirable, however, and particularly on large balances, the store may arrange for the services of professional skip tracers. These are commonly associated with collection agencies and bureaus. Credit men also exchange information among themselves freely concerning their worst accounts. It is not unusual for meetings of local associations of credit men to spend a good deal of time passing around inquiries concerning individuals of whom they have lost track. Since people cannot live in modern society without buying goods somewhere, many of these exchanges result in the finding of lost delinquent customers. The credit bureaus also afford an opportunity for picking up names of people who have skipped accounts at one store or another. Some buyers succeed in dropping out of the sight of their creditors for good, but a large proportion eventually turn up somewhere under circumstances such that the store can take action if it seems desirable.

CHAPTER 17

LOSSES AND REPOSSESSIONS

Measures of Credit Losses.—No matter what systems of control they use, instalment sellers inevitably suffer some losses from nonpayment of debt. They ordinarily evaluate these losses by two types of measurement. One shows the ratio of outstandings written off during any accounting period to the dollar volume of sales entered on the merchant's books during the same period. The other shows the percentage of unit sales on which the full indebtedness is not collected.

In practice the first type of measurement usually takes the form of a figure for net loss on bad debts sustained during a year. Merchants compute it by taking the dollar volume of debts written off during the year, subtracting the dollar volume of recoveries during the year on debts written off in preceding years, and expressing the remainder as a percentage of net instalment sales during the year. Sometimes the merchant computes his loss as a percentage of outstandings rather than as a percentage of sales, but retail stores commonly take net sales as the base, since this figure is used as the base for many of their other records.

The second type of measurement uses the number of units of some commodity upon which the merchant takes a particular form of collection action during an accounting period, and computes it as a percentage of the number of units sold during the period. Most commonly this type of measurement is applied to repossessions, and the figure computed is known as the repossession ratio. The merchant often supplements it by figures showing dollar losses sustained on repossessions. These losses he states either in dollars per unit sold or as a percentage of dollars sold or dollars repossessed.

Each measure has a number of technical limitations, and both measures are difficult to interpret, but they provide the only available basis for estimating the significance of uncollected debts to instalment sellers, financing agencies, and consumers.

Difficulties in Defining Repossessions and Write-offs.—A major difficulty in using the repossession ratio is to draw a meaningful line between returns and repossessions. Returns are goods the customer

sends back because they are not satisfactory or because they had been sent out on approval and no real sale was consummated. Repossessions are goods the merchant takes back because of some difficulty in collection, after the customer has accepted and used them.[1] One solution is to consider the circumstances of each specific case and make a decision as to how it shall be treated. More common, and considerably less laborious, is the plan of setting arbitrary time limits within which goods must be returned if they are not to count as repossessions.

Difficulties arise in computing dollar losses on repossessions because the range of values that can be taken for the returned goods is wide. Merchants may use for this purpose an estimate of the price at which the returned goods could be sold to merchants as used goods, the price at which they could be sold to consumers as used goods, their value on resale to consumers minus "normal" markup, the price actually received with or without deduction of a margin, the realized value minus a uniform arbitrary percentage, the balance outstanding on the repossessed account minus a uniform percentage, or an arbitrary fixed percentage of the original retail sale value of the goods. The central problems in each instance are to estimate the eventual recovery at the time the goods are taken back into inventory, and to make a proper deduction from the estimated value for expenses of repossession and resale.

With write-offs the first problem arises in deciding when to consider an account uncollectible. Some merchants automatically carry to profit and loss any account that is more than, say, ninety days behind on payments. At the other extreme, some merchants carry accounts to profit and loss only when they have exhausted all feasible techniques of collection without success. Thus the officials of one retail enterprise visited by the author wrote off accounts only after prolonged collection efforts had failed, and they had only one flat rule—that in the absence of special circumstances, no account could be carried into its third year in the active file, even if payments were being made from time to time. Most merchants fall somewhere between the two extremes. Perhaps the most common rule is to write off any account on which no payment has been made within the last three to six months.

In the very long run, losses are determined by what happens, not by an estimating formula. In the short run, however, one system will have high write-offs followed by high recoveries, whereas the other will have small mark-offs and small recoveries. The effect on the record for any one accounting period may be very great. Under some circumstances, as during the war years of low losses and high recoveries, the net of recoveries minus write-offs may be a positive rather than a nega-

[1] For some purposes it is also desirable to differentiate forced repossessions from voluntary ones or give-ups.

tive figure. An important influence in all this, of course, is the situation in any year as regards taxes. Just as do other taxpayers, merchants prefer to write off losses, insofar as they are permitted, when tax rates are high.

Difficulties in Determining Losses.—Other difficulties preclude a high degree of certainty in measuring losses. Costs in collecting or trying to collect delinquent accounts may be very high, for example, but they usually appear as an "expense" rather than a "loss." Similarly, authorities disagree as to whether the "loss" should include carrying charges, insurance charges, and dealers' reserves or packs. An illustration will show the importance of the point.[2] A sales finance company's note on an auto sale may have a face of, say, \$360, made up of \$300 as the unpaid balance on the purchase price and \$60 as the carrying charge (including \$20 for insurance, dealer's reserve, and loss reserve). If the car is repossessed before any payment is made, and sold for, say, \$315, sales finance company practices may show anything from a profit of \$15 to a net loss of \$45. If the sales finance company were to follow the practice of many instalment sellers in other trades, the loss could be even larger than this because the estimated value would be set low enough to permit subsequent addition of a margin covering expenses of resale.

The American Bankers Association recommends that its members compute the "total cost" of repossessed merchandise as the full unpaid balance on the obligation (including carrying charges or discounts), plus accumulated unpaid fees for delinquency and the like, minus the unearned charge and minus the insurance premiums spent by the bank. This "total cost" minus the price received for the goods when they are resold is the "loss." The "loss," plus expenses of reconditioning, selling, and the like, is the "total loss." The "total loss" computed as a percentage of net sales or of contracts financed during a given period is the "loss ratio."[3]

Statistics on credit losses are further affected by accounting conventions. The conventional base period for most accounts is a year, whatever the cycle of purchase, sale, and collection may be. This means that sales, collections, write-offs, recoveries, losses, and the like are computed and compared for the same calendar or fiscal year. The results are often misleading. If sales drop sharply, the percentage of write-offs may increase sharply simply because changes in losses lag behind those in sales. If delinquencies, write-offs, and repossessions could

[2] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 129, 130.

[3] American Bankers Association, *Bank Manual on Automobile Financing Dealers Plan*, pp. 32, 33.

always be counted against the year in which the sales were made, the swings doubtless would be much less violent.

The apparent significance of credit losses is further affected by the choice of the figure to be used as the base for percentages. For example, losses on consumer instalment credit are much lower when set against outstandings or total sales or total collections, than when set against the enterprise's total expenses, its operating income, its gross margin, or its net profit. A few merchants confuse the issue further by computing all records, including credit losses, as a percentage of total sales, not of credit sales alone. The loss figures thus vary according to the percentage of the business done on credit and the percentage of down payment.

A final matter of very great significance in interpreting data on credit losses is that an individual enterprise may have small losses because it can shift most of its losses to someone else. The record of a particular enterprise standing by itself may thus have little significance. For example a bank or sales finance company may have negligible losses in financing instalment sales, not because the write-offs and repossessions are really small, but because it has recourse against the dealers. To find the true losses one must go back through the books of the dealers. Even this may not be enough. The manufacturer's relations with his dealers in the financing of instalment sales must be explored. When the risk is insurable, as is true of the danger that the creditor may die or someone may steal the collateral, the "loss" may disappear entirely and become an insurance premium counted as an "expense" or "cost" of doing business.

Write-offs by Different Trades.—The principal source of available statistics on credit losses sustained by retailers is the successive issues of the *Retail Credit Survey.* Although these figures share the general weakness of that series of reports,[4] they serve to show the general order of magnitude of the losses in this business and the changes that take place in it from one phase of the business cycle to another.

Table 42 shows the bad-debt losses suffered by four types of retailers from 1929 to 1946. These losses are computed by taking debts written off during the year, minus recoveries during the year on accounts previously written off as a percentage of instalment sales during the year.[5]

This table shows that trades differed widely in their loss experience prior to the war, which virtually eliminated losses for all trades. The very low loss rate of automobile dealers is presumably attributable to

[4] See Appendix A.

[5] The sales presumably are net sales, i.e., gross sales minus returns and allowance, although the original does not say so explicitly.

TABLE 42

BAD-DEBT LOSSES ON INSTALMENT SALES OF SELECTED RETAIL DEALERS, 1929–1944 IN PER CENT OF TOTAL INSTALMENT SALES[a]

Year	Automobile Dealers	Department Stores	Furniture Stores	Jewelry Stores
1929	–	1.48	3.11	7.13
1930	–	1.85	3.89	8.91
1931	–	2.68	6.19	12.88
1932	–	3.92	10.08	18.77
1933	0.46	2.97	5.32	13.44
1934	0.35	1.44	2.66	6.72
1935	0.28	1.01	1.71	4.94
1936	0.23	0.81	1.29	3.77
1937	0.23	0.81	1.38	3.51
1938	0.42	1.13	1.46	4.17
1939	0.20[b]	0.74[b]	1.23[b]	3.26[b]
1940	0.09[b]	0.59[b]	1.19[b]	2.85[b]
1941	–	0.61[b]	0.69[c]	–
1942	–	–	0.51[c]	–
1943	–	–	0.17[c]	–
1944	–	0.02[d]	0.27[c]	–
1945	–	–	0.30[c]	–
1946	–	–	0.25[c]	–

[a] Based on U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *Retail Credit Survey* (1930–1940), except as indicated in subsequent footnotes. Bad-debt loss is the total of accounts determined to be uncollectible in a given period, minus recoveries during the same period on old accounts previously charged off. This amount is here taken to be an index of credit loss since the latter is composed primarily of "bad-debt" loss.

Each issue of the *Retail Credit Survey* presents the experience of an identical group of stores over a two-year period (the year of issue and the previous year). From these data the percentage charges in the bad-debt loss figures from one year to the previous year were calculated for each type of outlet; the percentage changes were then calculated against the 1938 bad-debt loss figure to derive the figure for each year. Because of the very small sample of jewelry stores reporting during the 1929–1932 period, jewelry bad-debt loss figures for these years were adjusted in the light of department stores' experience.

[b] *Retail Credit Survey, 1939–1941.*

[c] Computed from data in annual operating reports of the National Retail Furniture Association 1941–1946.

[d] Median bad-debt loss for 67 member stores as reported in *Credit Currents*, Credit Management Division, National Retail Dry Goods Association, July, 1945, p. 14.

Source: Figures for 1929–1938 from W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 123. Those for later periods from sources noted above.

the fact that most automobile instalment purchases are financed by finance companies and banks. These agencies, rather than the dealers, have the credit losses. Even if they charge the losses back to the dealer under some recourse system, they probably will do it through the dealer's reserve, so that the losses appear on the retailer's books only in the form of a refund smaller than it would have otherwise been. Department stores have a relatively low loss rate primarily because, as a class, they follow credit policies different from those of furniture and jewelry stores. At least until recently, department-store credit men have tended to follow policies much like those they developed in han-

dling charge accounts. These are restricted largely to the more well-to-do members of the community. Furniture and jewelry stores that emphasize instalment credit consider that their function includes selling to customers whose incomes are subject to a great many economic hazards, so that there is a considerable likelihood of difficulty when times turn bad.

One must remember that, as we have seen, to a very considerable extent instalment sellers set their own losses. They do this not only in choosing their trades, locations, goods, and operating policies, and in selecting risks from among applicants, but also in setting up controls over customers' purchases and collection procedures. The more strictly a store limits its customers' assumption of risks and holds them to their payment schedules, the lower will be its average loss. Correspondingly it can influence its loss by the extent to which it uses skillful, persistent, expensive, aggressive, and abusive techniques in collection. The managerial problem sums itself up in a series of choices to be made within the limits set by competition. Figures such as those in Table 42 reflect the managerial choices in these matters as much as it does any objective factors that lie beyond the control of the managers.

As we have seen, there are also some conspicuous sellers who deliberately set high gross margins because they expect to collect only a part of their price on many, perhaps most, transactions. The resultant losses are losses only in a formal sense. They can perhaps most properly be considered price reductions or markdowns, but their presence in the accounts of the merchants studied may help explain some of the higher percentages of "loss." Other situations exist where a so-called "loss" is really the cheapest alternative open to a store, and so saves it money. For example the credit manager of one very large retail organization pointed out to the writer that in some circumstances they cleared overstocks of obsolescent goods by liberalizing credit policies in such a way as to increase their credit losses as much as, say, two percentage points. They found this a better bargain than holding their credit policies firm and cutting the price drastically in order to move the goods.

Year-to-Year Changes in Write-offs.—Table 42 also illustrates another difficulty noted above in reading statistics on write-offs. When sales, write-offs, and recoveries are computed for the same period and compared directly, they tend to exaggerate the extent to which instalment buyers get into difficulty in bad years and pay up in good years. This year's write-offs and recoveries are to a considerable extent on business done last year or earlier. If sales fluctuate substantially from year to year, the write-off percentage also will fluctuate sharply, even

though the true write-off rate remains constant. A very sharp increase in the percentage may thus reflect a drastic fall in sales more than anything else; and a sharp decrease may reflect primarily a sharp expansion in sales. Similarly, when stores follow a rigid policy of writing off accounts that are so many weeks or months behind, seeming losses will be increased in one period if payment periods merely lengthen, and will be reduced in a subsequent period when customers eventually pay up, with a consquent expansion of recoveries. For a true picture of yearly losses, allowance must be made for lags and leads of this sort.

Even after such allowances, the percentage of loss remains a far from negligible figure. The individual merchant may accept the situation because he sells in a market that permits him to obtain a satisfactory margin even after taking his loss. From the point of view of the economy as a whole, however, it must be remembered that even small percentages represent large absolute numbers of people, tranctions, and dollars.

Repossession of Automobiles.—For automobiles, data assembled by Smith, Plummer, and Young permit a more meaningful analysis. Smith worked out estimates of the number of new and used cars repossessed during the years 1928 to 1938, inclusive. His figures, brought down as nearly to date as possible from available data, are presented in Table 10. They are particularly useful because they cover two cycles, including the prolonged, severe depression of the early 1930's and the sharp but short-lived slump of 1938. The number of new and used cars sold during the twelve years, 1928 to 1939, inclusive, totaled 78,962,370. Of these, 47,150,218 (or 59.7 per cent) were bought on instalments. The total number of cars repossessed during the period was 3,307,078. This represents 7.0 per cent of the cars sold on instalments and 4.2 per cent of all the cars sold during the period. There is no indication in these data of the proportion of repossessions properly attributable to credit difficulties.

Whether these percentages are "high" or "low," who can say? One out of 20 car buyers, or one out of 14 instalment buyers, lose their cars through repossession, voluntary or forced. The absolute number of buyers affected is large—3,307,078 in twelve years. It should be noted again that critics of the banks and finance companies accuse them of being somewhat hasty in taking repossessions. Certainly there does not seem to be as great a reluctance among them to repossess as there is among, say, furniture dealers. This is true partly because the relations between the finance company and the buyer are, as a rule, remote and impersonal, whereas the retailer knows many of his customers personally and must live with them in the future. Also, the finance company

in repossessing an automobile, although it may lose money, obtains a readily marketable good, whereas the repossession of many other sorts of goods yields little except ill will. The finance companies evidently feel their losses to be smaller than what they would have if they followed a less aggressive repossession policy. Furniture merchants, at the other extreme, characteristically stave off repossessions as long as possible.

The sharp cyclical fluctuation in repossessions shown by Table 10 are also of interest. In absolute numbers the repossessions of the worst year (1937) were more than three and a half times as large as those of the best year (1936). In percentages the worst years are also more than three times as large as the best. Here again, however, percentages are deceptive. To yield the most significant measure, each repossession should be counted in the year of purchase, not the year of repossession; but the data do not permit this.

Repossession of Used Automobiles.—Table 43 provides some additional information of very great interest about repossessions, even though it is restricted to cars financed through sales finance companies. In every year from 1928 to 1939, inclusive, the percentage of used cars repossessed was very much larger than the corresponding percentage of new cars. Several explanations of this phenomenon are usually given. One is that since the used cars are sold to consumers at lower levels of income, the purchasers are nearer to the margin of ability to make the purchase comfortably and maintain the automobile easily. We shall see in Chapter 25 that the average indebtedness assumed by the instalment buyers of automobiles at the lowest income levels represents a very heavy drain upon monthly income.

These buyers are therefore likely to find it more difficult to continue their payments when incomes drop off than are families whose income includes a somewhat larger margin of safety. Since their own investment in the automobile is smaller, they presumably would have less incentive to oppose repossession. Presumably they are also more likely than new-car buyers to become dissatisfied with the cars themselves. These various factors apparently are reinforced by a tendency of the financing agencies to insist that payments on used cars be more prompt than those upon new cars because their margin of safety is smaller. So also they tend to resort to more drastic collection procedures earlier in the course of events.

Losses on Automobile Repossessions.—Table 43 indicates that the right of repossession, which some commentators stress in considering the nature of the instalment contract, gives the financing agency involved considerably less than perfect protection. During the twelve

TABLE 43

PERCENTAGE OF CARS REPOSSESSED AND AVERAGE LOSS PER REPOSSESSION, 1928–1939

Year	Percentage of Cars Repossessed			Average Loss Per Repossessed Car		
	New	Used	All Cars	New	Used	All Cars
	Per Cent	*Per Cent*	*Per Cent*	*Dollars*	*Dollars*	*Dollars*
1928	2.9	5.6	4.1	–	–	59
1929	3.0	5.6	4.2	–	–	63
1930	3.7	6.9	5.4	–	–	65
1931	4.5	11.4	8.5	–	–	47
1932	5.7	13.1	10.4	–	–	59
1933	2.8	7.8	5.7	–	–	42
1934	2.9	7.2	5.3	64	45	50
1935	2.7	10.7	7.3	67	53	55
1936	2.2	7.5	5.1	61	49	51
1937	4.1	13.2	9.4	53	52	52
1938	6.3	19.2	15.1	70	58	62
1939	2.7	10.1	7.5	70	52	54

Source: Figures for 1928–1938 from T. H. Smith, *The Marketing of Used Automobiles*, p. 205. Derived by Smith from publications by the National Association of Finance Companies. Data for 1939 from *Automobile Facts and Figures*, 1940, p. 35.

years covered by this table the average loss taken on repossessed cars ranged from a low of $42 in 1933 to a high of $65 in 1930. Since the average loss seems to fluctuate with the business cycle and to be larger on new than on used cars, there probably is some relation between the price of the automobiles purchased and the repossession loss. The figures are not detailed enough to permit more precise analysis, and furthermore, the meaning of "loss per repossessed car," as we have seen, is uncertain enough to make interpretation of these figures difficult. About all one can safely conclude is, rather vaguely, that the right of repossession has not made for complete elimination of credit loss even when circumstances permit its being exercised. In other words, terms established under the pressure of the market have been such that goods repossessed do not average a market value sufficiently large to cover the delinquency and other costs involved.

Table 44 gives some idea of the relative importance of repossession losses dollarwise. It shows the dollar losses as a percentage of the total value of retail paper financed by the finance companies. For new cars this percentage held year after year between a low of somewhat more than two tenths of one per cent and a high of just under seven tenths of one per cent. For used cars the range was from slightly less than 1½ per cent to slightly more than 4 per cent. The aggregate results for the six years covered were 0.372 per cent for new cars ($17,591,000

TABLE 44

REPOSSESSION LOSSES IN RELATION TO VALUE OF RETAIL FINANCE PAPER, NEW AND USED AUTOMOBILES, FINANCE COMPANIES, 1934–1941

Year	Total Number of Cars Sales Financed (1)	Repossessions as a Per Cent of Total Sales (2)	Value of Retail Finance Paper (3)	Average Loss per Repossessed Car (4)	Total Repossession Losses (Col. 1 × Col. 2 × Col. 4) (5)	Repossession Losses as Per Cent of Total Retail Paper (Col. 5 ÷ Col. 3) (6)
New Cars:						
1934	1,064,000	2.9	$ 587,000,000	$64	$ 2,000,000	0.341
1935	1,334,000	2.7	734,000,000	67	2,400,000	0.327
1936	1,908,000	2.2	1,106,000,000	61	2,600,000	0.235
1937	1,747,000	4.1	1,035,000,000	53	3,800,000	0.367
1938	824,000	6.3	519,000,000	70	3,600,000	0.694
1939	1,159,000[a]	2.7[c]	748,000,000[b]	70[c]	2,190,510	0.293
1940	1,456,000[a]	–	986,000,000[b]	–	–	–
1941	1,478,000[a]	–	1,076,000,000[b]	–	–	–
Used Cars:						
1934	1,355,000	7.2	307,000,000	45	4,400,000	1.433
1935	1,792,000	10.7	424,000,000	53	10,200,000	2.406
1936	2,356,000	7.5	610,000,000	49	8,700,000	1.426
1937	2,453,000	13.2	686,000,000	52	16,800,000	2.449
1938	1,793,000	19.2	492,000,000	58	20,000,000	4.065
1939	2,196,000[a]	10.1[c]	615,000,000[b]	52[c]	11,533,392	1.875
1940	2,583,000[a]	–	754,000,000[b]	–	–	–
1941	2,924,000[a]	–	943,000,000[b]	–	–	–

[a] Sales Finance Companies, Bureau of the Census (mimeo.), 1939–1942. Figures given here are to the nearest thousand.
[b] Sales Finance Companies, *loc. cit.*, figures given have been rounded to the nearest million.
[c] See Table 43.

Source: 1934–1938, T. H. Smith, *The Marketing of Used Automobiles*, p. 206, 1939–1941, as noted above.

TABLE 45

BAD DEBTS CHARGED OFF BY TYPICAL FURNITURE STORES, 1934-1946

Year	Large	Medium	Small
1934	[a]	2.1	[a]
1935	[a]	1.3	[a]
1936	[a]	1.3	[a]
1937	0.89	0.95	1.38
1938	0.95	1.35	1.00
1939	0.98	0.81	1.00
1940	1.09	1.42	1.40
1941	1.01	0.90	1.15
1942	1.40	1.42	1.00
1943	0.75	1.17	[b]
1944	0.60	0.67	[b]
1945	0.60	0.50	[b]
1946	0.39	0.58	[b]

[a] Data for 1934, 1935, and 1936 not classified by size of store.
[b] Not available.

Source: Annual reports of the National Retail Furniture Association on operating experiences of furniture stores. The figure obtained from each store is: (a) From 1934 to 1936, bad debts charged off during the year computed as a percentage of accounts receivable outstanding at the first of the year; (b) from 1937 to 1946, bad debts charged off computed as a percentage of net time sales. The "typical" figure is the median. The stores reporting are not identical from year to year. Large stores have annual net sales of more than $350,000 in one or more outlets; medium stores, $125,000 to $350,000; small stores less than $125,000.

of repossession losses on $4,729,000,000 of retail finance paper). For used cars the total was 2.29 per cent ($71,633,000 of repossession losses on $3,134,000,000 of retail finance paper).

Losses and Repossessions in Other Trades.—Figures for furniture stores roughly comparable with those already given for automobiles have been compiled for several years by the National Retail Furniture Association. Table 45 shows figures for bad debts charged off by "typical" furniture stores somewhat different from those in Table 42 because of differences in sampling and computing procedures. It adds to the earlier discussion a comparison of large, medium, and small stores. Differences among the stores of different size are too small and too variable to permit the drawing of firm and significant conclusions, but there is a slight indication that large stores have somewhat smaller bad-debt losses than medium ones.

Tables 46 indicates that furniture stores take somewhat smaller losses on repossessions than those shown for automobile finance companies in Table 44. The percentages shown in the two tables are much the same in 1937, 1938, and 1939, the three years for which comparisons are possible, but Table 44 shows repossession loss, whereas Table

46 shows the balance outstanding on repossessed accounts, from which must be subtracted the proceeds from the sale of repossessed goods. As with bad debt losses, no size of store has a clear advantage, although there is a slight apparent advantage shown for the larger stores. The influence of the war, with its restrictions upon instalment sales and its enlargement of incomes, is shown in the sharp reductions of repossessions from 1941 on.[6]

TABLE 46

UNPAID BALANCES OF ACCOUNTS REPOSSESSED BY TYPICAL FURNITURE STORES, 1934–1946

Year	Large	Medium	Small
1934	[a]	6.8	[a]
1935	[a]	4.7	[a]
1936	[a]	3.8	[a]
1937	2.14	2.47	2.53
1938	3.48	4.22	4.00
1939	2.43	1.73	2.56
1940	2.10	1.75	1.47
1941	1.10	1.34	1.60
1942	0.68	1.87	1.00
1943	0.19	0.90	[b]
1944	0.21	0.36	[b]
1945	0.27	0.52	[b]
1946	0.28	0.55	[b]

[a] Data for 1934, 1935, and 1936 not classified by size of store.
[b] Not available.

Source: Annual reports of the National Retail Furniture Association on operating experiences of retail furniture stores. The figure obtained from each store is: (a) From 1934 to 1936, the balance due on accounts repossessed during the year computed as a percentage of accounts receivable outstanding at the first of the year; (b) from 1937 to 1946, the same balance computed as a percentage of net time sales during the year. The "typical" figure is the median. The stores reporting are not identical from year to year. Large stores have annual net sales of more than $350,000 in one or more outlets; medium $125,000 to $350,000; small, less than $125,000.

There are also a few scattered figures that permit a rough comparison of various instalment sellers and lenders. Thus Dauer offers some data on losses of cash lenders and sales finance companies for 1929, 1933, and 1936. Although not directly comparable with the figures already given for instalment sellers, they tend to confirm the point already indicated that write-offs rise and fall sharply with the business cycle. Coppock shows that the Federal Housing Administration paid claims amounting to approximately 5 per cent of the dollar volume of

[6] A few fragments of statistics that tend to confirm what has been said here, but add little to the discussion, will be found in H. W. Cordell, *Instalment Credit in the Retail Furniture Trade*, pp. 108, 109; A. Kaylin, *Instalment Selling: A Survey Conducted in Department and Furniture Stores*; and R. A. Love, "The Piano Business," in E. R. A. Seligman, *The Economics of Instalment Selling*, Vol. II, pp. 369–373.

TABLE 47

REPOSSESSION EXPERIENCE, 1933–1937, ON NEW AND USED CARS FINANCED DURING 1933–1936, BY DOWN PAYMENT[a]

Down Payment (In % of cash selling price)	Repossession Ratio[b]		Index of Repossession Experience[c]		% Distribution of All Cars Financed	
	New Cars	Used Cars	New Cars	Used Cars	New Cars	Used Cars
Under 20	7.8	19.7	+188.9	+69.8	1.6	1.6
20–29	6.4	18.4	+137.0	+58.6	10.8	11.1
30–32	4.9	16.4	+81.5	+41.4	6.4	8.4
33–35	3.9	14.5	+44.4	+25.0	23.9	25.5
36–40	2.5	11.8	−7.4	+1.7	12.3	21.3
41–49	1.2	7.7	−55.6	−33.6	17.0	16.2
50 and over	0.4	3.4	−85.2	−70.7	28.0	15.9
All cars	2.7	11.6			100.0	100.0

[a] Based on data supplied by a large sales finance company, covering 1,804,607 new-car and 2,260,059 used-car contracts.
[b] Number of repossessions per hundred cars financed.
[c] Obtained by calculating each repossession ratio as a per cent of average repossession ratio and subtracting 100; the result shows each level's deviation from the average of all levels, the *plus* indicating worse than average and the *minus* indicating better than average.

Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 162.

TABLE 48

REPOSSESSION EXPERIENCE, 1933–1937, ON NEW AND USED CARS FINANCED DURING 1933–1936, BY LENGTH OF CONTRACT[a]

Length of Contract (In months)	Repossession Ratio[b]		Index of Repossession Experience[c]		% Distribution of All Cars Financed	
	New Cars	Used Cars	New Cars	Used Cars	New Cars	Used Cars
1–5	1.1	11.6	−59.3	0.0	3.3	3.2
6–11	2.3	15.1	−14.8	+30.2	8.2	23.9
12	1.8	11.1	−33.3	−4.3	31.1	59.8
13–17	3.5	9.2	+29.6	−20.7	4.0	3.3
18	3.2	6.5	+18.5	−44.0	45.5	9.3
Over 18	3.7	8.8	+37.0	−24.1	7.9	0.5
All cars	2.7	11.6			100.0	100.0

[a] Based on data supplied by a large sales finance company, covering 1,804,607 new-car and 2,260,059 used-car contracts.
[b] See Table 47, footnote b.
[c] See Table 47, footnote c.

Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 163.

instalment loans it insured, and that between 7 and 8 per cent of the contracts financed by the Electric Home and Farm Authority ended in repossession. According to Young, during the 1930's the write-offs of personal finance companies averaged about 1 per cent of loans and from one half of 1 per cent to 2 per cent of outstandings, according to type of security. Personal loan departments of commercial banks averaged a small fraction of 1 per cent of outstandings on write-offs, according to Chapman.[7]

Down Payments and Repossessions.—Reasons for and causes of repossessions and losses are not easily classified. Furthermore, it is well nigh impossible to isolate any one factor as specifically responsible for the difficulties in any individual sale that result in nonpayment. However, a number of students have made attempts to find out whether there is a significant relationship between certain factors in instalment sales and repossessions or write-offs.

Table 47, 48, and 49 use data obtained from one large finance company to test the effects upon repossessions of three such factors—the

TABLE 49

REPOSSESSION EXPERIENCE, 1933–1937, ON USED CARS FINANCED DURING 1933–1936, BY CASH SELLING PRICE[a]

Cash Selling Price[b]	Repossession Ratio[c]	Index of Repossession Experience[d]	% Distribution of All Cars Financed
Under $ 100	20.9	+79.5	4.2
$100– 200	16.3	+40.2	27.8
200– 300	12.0	+ 2.8	24.2
300– 400	9.6	−17.5	17.2
400– 500	7.1	−39.0	12.9
500– 600	6.0	−48.6	7.3
600– 700	6.0	−48.7	3.4
700– 800	5.7	−50.9	1.5
800– 900	6.0	−48.7	0.7
900– 1,000	5.9	−49.7	0.3
1,000 and over	6.8	−41.9	0.5
All cars	11.6	-	100.0

[a] Based on data supplied by a large sales finance company, covering 2,260,059 used-car contracts.
[b] Each level is inclusive of the lower figure and exclusive of the higher.
[c] See Table 47, footnote b.
[d] See Table 47, footnote c.

Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 164.

[7] E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing. Agencies and Commercial Banks*, 1929–1941, p. 104; J. D. Coppock, *Government Agencies of Consumer Instalment Credit*, pp. 63, 136; R. A. Young, *Personal Finance Companies and Their Credit Practices*, pp. 8, 9; and J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 9.

percentage of down payment, the length of the repayment term specified in the contract, and differences in the cash selling price.

Table 47 shows that the number of cars repossessed per 100 cars financed falls sharply as the down payment rises. Whereas 7.8 per cent of the new cars and 19.7 per cent of the used cars upon which the down payment represented less than 20 per cent of the "cash price" [8] were repossessed, only four tenths of one per cent of the new cars and 3.4 per cent of the used cars financed with a down payment of 50 per cent or more were repossessed. For purposes of facilitating more exact comparison, these percentages are recalculated as a "repossession index" which shows a very close relationship between the repossession rate and the down payment. It also shows a closer relationship for new than for used cars.

Length of Contract and Repossession.—That length of contract exerts considerably less influence than percentage of down payment in determining the rate of repossession is indicated by Table 48. There is no clear-cut increase from class to class in the repossession ratio or index as there is in Table 47, which classifies transactions by percentage of down payment. For new cars, the repossession ratio tends to rise as the contract term lengthens. This conforms to expectations for several reasons: First, the longer the term, the longer the exposure of the buyer to financial hazards that lead to inability to pay; second, the longer the term, the greater is the likelihood that the satisfactions to be derived from car ownership will prove to have been overestimated; and, third, the longer the term, the greater the likelihood that the consumer's buying a car at all presses closely on his ability to buy and maintain it.

One would expect these same forces to apply to used cars, but apparently they are offset by the policies the sellers follow. Because they believe that the less stable and reliable customers buy used cars, they tend to watch used-car buyers carefully and to push a large percentage of the risks into the shorter terms. The high repossession rates in the shorter terms are thus primarily the result of the seller's pushing customers who are most likely to default into these classes. Similarly, very long terms may have less effect than one would expect upon repossessions because the hazards of long terms are offset in part by careful screening of risks.

Unit Prices and Repossessions.—Table 49 tests the influence of a third factor on repossession rates. It computes the repossession ratio for used cars classified into eleven price classes suitable for the price structure of the time. The $200 to $300 level had about average repossessions. The eight price classes above that level had less than

[8] "Cash price" is not defined in the original.

average repossession ratios. The two below had repossession ratios far above the average.

This contrast is about what one would expect. The lowest price used cars combine the various elements that tend to increase the repossession ratio—buyers who are subject to the greatest economic hazards, buyers who are nearest to the margin of inability to afford any car, goods that are least satisfactory both in use and as saleable collateral, and creditors who are inclined to concentrate the poorer risks in the shorter terms.

Other Factors That Influence Losses.—Here and there one comes across fragmentary evidence that other factors play a part in determining the losses sustained, although they have not been subjected to such systematic analysis. Thus Hagios (reasoning from the "experience of a large instalment distributor") agrees that repossessions drop as the percentage of down payment rises. He adds that they also drop as the number of instalments paid rises.[9] It is a well-known fact that weaknesses in instalment accounts tend to show during the early months of the payment period. Phelps, from an analysis of 10,000 accounts in one retail enterprise, concludes that repossessions and write-offs rise as terms are lengthened, the face value of the contract (including "add-ons") increases, the amount of the "add-ons" grows larger than the amount of the original sale, and the size of the monthly payments is increased by "add-ons." [10]

The author's interviews with merchants and other informed individuals suggest that an important factor neglected in most statistical analyses of credit losses is the original markup or gross margin on the goods. There seems to be little doubt that many merchants who get a very high markup are satisfied to take substantial losses. Thus, one admittedly high-pressure "borax" credit clothing store from which the author obtained some figures had set its prices during the preceding accounting period with a markup of 58.5 per cent on retail. Its write-offs, however, averaged about 20 per cent of retail. Whether these write-offs should be considered a "loss" under these circumstances is doubtful, since the write-off would bring the aggregate net margin down to a figure about normal for clothing.

Immediate Reasons for Repossessions.—Less amenable to statistical analysis than the objective factors considered in foregoing paragraphs as causes of repossessions or losses are efforts to identify something that can be called the immediate reasons for repossessions. Table

[9] J. A. Hagios, "Credit Terms as an Element in Merchandising Competition," *Credit Management Year Book*, 1940, pp. 94–97.
[10] C. W. Phelps, *Controlled Instalment Credit*, p. 6.

TABLE 50

PERCENTAGE DISTRIBUTION OF REPOSSESSIONS, 1933–1937, ON NEW AND USED CARS FINANCED DURING 1933–1936, AND DISTRIBUTION OF THE REPOSSESSION RATIO, BY REASON FOR REPOSSESSION[a]

Reason for Repossession	Percentage Distribution of Repossessions	Distribution of Repossession Ratio[b]
New Cars:		
Financial risk	29.3	0.8
Moral risk	16.8	0.5
Reverses	52.5	1.4
Dissatisfaction	1.3	[c]
Fraud	0.1	[c]
All reasons	100.0	2.7
Used Cars:		
Financial risk	32.7	3.8
Moral Risk	12.7	1.5
Reverses	49.8	5.7
Dissatisfaction	4.7	0.6
Fraud	0.1	[c]
All reasons	100.0	11.6

[a] Based on data supplied by a large sales finance company, covering 57,739 new-car and 354,052 used-car repossessions.
[b] Ratios for individual reasons are computed by multiplying the ratio for all reasons (total number of repossessions per hundred cars financed) by the percentages in the preceding column.
[c] Less than 0.05 per cent.
Source: W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 171.

50 illustrates the problem. It tabulates the immediate reasons for repossession assigned by one large sales finance company in more than 400,000 repossessions. In each instance the reason assigned represented the best judgment the company could make as to the immediate cause. It will be noted that the two most important reasons for repossessions of both new and used cars are "financial risks," by which is meant the granting of credits weak from the outset to customers who overestimated their ability to pay for the car and its upkeep, and "reverses," by which is meant inability to pay for the car chiefly because the buyers encountered financial or other personal difficulties.

A good many writers have tried their hands at this sort of thing with results of somewhat uncertain value, although some of them undoubtedly add to our knowledge of how losses come about. Thus, in automobile financing some part of the loss is due to fraudulent conversion by either dealer or consumer, or to confiscation by public authorities because the cars are used for unlawful purposes. Other losses

are attributable to accidents. Such losses are, of course, quite different in cause and effect from those due to simple nonpayment because the consumer cannot or will not pay.

If he cannot pay, his difficulties may be due to miscalculation of his capacity or to unexpected reverses, especially loss of employment. If he has reverses, they may be due primarily to his own lack of capacity or to an incident of general business conditions. If he merely refuses to pay, the loss may be due to a legitimate dissatisfaction with the goods, possibly because of misrepresentation by the seller, or to a decline of his interest in them possibly because his home has been disrupted by marital difficulties, illness, or death.

The Significance of Losses on Instalment Sales.—The significance of losses on instalment sales can be evaluated only by comparisons. A common one is to set losses on consumer credit against losses on other types of credit. By this test instalment selling come off reasonably well. Thus Neifeld finds that over the depression years 1930–1935 national banks averaged a loss of 2 per cent of outstandings on bonds and 2.2 per cent on loans. In comparison, the two largest personal finance companies over the same years averaged a loss of 4 per cent of their outstandings.[11] Table 42 indicates that department stores had losses on instalment sales close to that of the banks; furniture stores were close to the personal loan companies; and jewelry stores were substantially higher. It must be remembered, however, that bank loans and bond purchases involved sums large enough to permit much more elaborate credit controls and to support much more expensive collection procedures than would have been possible for the instalment sales.

Another comparison sometimes made to indicate the soundness of consumer credit is between the losses taken in the great depression of the 1930's and the fears expressed during the preceding decade concerning what such losses were likely to be. Seligman gave much attention to this problem, and, with the aid of his associates, made some ingenious efforts to forecast the results through a statistical analysis of repossessions in the depressed anthracite areas of Pennsylvania.[12] There is no question but that most observers were agreeably surprised at the repayment record of instalment buyers during the depression. Payments slowed down and repossessions went up in the 1930's, but the final write-offs were much smaller than had been expected by the more pessimistic prophets. What happened then is one of the reasons why

[11] M. R. Neifeld, "The Anatomy of the Interest Rate," in J. H. Cover, *Financing the Consumer*, p. 105. See also C. O. Hardy, *Consumer Credit and its Uses*, p. 106; H. Ittleson, *A Current Appraisal of Instalment Financing*, p. 11; and R. A. Young's preface to D. Durand, *Risk Elements in Consumer Instalment Financing*.

[12] E. R. A. Seligman, *The Economics of Instalment Selling*, Vol. I, pp. 325-327, and "The Depression Study," by R. W. Robey, in Vol. II.

commercial banks have since pushed aggressively into consumer credit as a field for the direct employment of their funds.

Although this record indicates that terms were held well within the capacity of most consumers to pay, some critics argue that this means little as regards social soundness. Thus they argue that the payment record was achieved only by severe curtailment of other purchases (often called "necessities" by the critics), and that many consumers took drastic losses in repossessions, even though the sellers and financing agencies had relatively light ones.[13] The "good" payment record must be set against what consumers have lost in the value of goods given up or repossessed by force. Unfortunately, to the present writer's knowledge, there are no quantitative data available on this aspect of the matter. Furthermore it would be extremely difficult to measure the value received by the customer in return for his payments. It must be remembered that he has had the use of the goods up to the time of repossession. One must determine whether what he has paid is anything more than a fair rent for this usance.

Other writers have expressed doubts whether a similarly good record can be expected in the future. Since it has become possible to buy many kinds of goods on the instalment plan, there is a danger that consumers will not in the future have the margin of safety in other expenditures to be reduced when a decrease in income forces retrenchment. Looser terms are important in this regard only if they result in thus reducing the margin of safety. If they have only the effect of extending the period of repayment, and if they do not affect the margin of safety on individual pay checks, their significance will be somewhat different from that visualized by these writers. In any event, such discussions are merely prophetic and have not yet been put to the test of events.

[13] J. D. Weiss, "Instalment Selling—A Critical View," 17 *Harvard Business Review*, Autumn, 1938, pp. 97, 98.

CHAPTER 18

COSTS AND PROFIT IN CREDIT SELLING

One of the most controversial topics in instalment buying, that of its cost, comes up as an aspect of several overlapping problems. We saw in Chapter 11, for example, that the cost of credit raises difficult problems in pricing for retail management. Essentially these problems had to do with determining the probable cost of the credit service and deciding from whom and in what form the revenue to cover the cost should be derived. Equally difficult problems arise when one looks backward at costs rather than forward. Here such questions arise as: How much has the credit service cost? Is it profitable for the seller or lender? From the social point of view, does it in some sense cost "too much"? All such questions can be dealt with effectively only when costs are understood and measured.

Difficulties in Measuring the Cost of Credit.—Difficulties arise, first, from a wide divergence in ideas as to what should and what should not be included in the cost of credit. Several questions must be answered: First, which of the monetary outlays of an enterprise are identifiable as being made directly in order to provide (or, in more technical economic terms, to "produce") the credit service it sells to its customers? Second, how can that part of an enterprise's overhead that goes to produce the credit service be identified and measured? Third, to what extent are expenditures for the provision of credit offset by increases in revenue or reductions in other expenditures for which allowance must be made in computing the net cost of credit to the enterprise? The answers given vary widely.

The simplest way of comparing revenue from and costs of credit is to set income from carrying charges against the sum of expenditures made for personnel, equipment, supplies, and services used directly in credit and collections, and net losses on bad debts. Somewhat more elaborate methods group expenditures into categories that bear upon or stem fairly closely from credit granting and those which do not. Those which do are allocated to the credit operation, and the total is compared with direct credit income. The more remote elements of expenditure and income are ignored. The most elaborate plans make a complete

and detailed allocation of all an enterprise's cost and revenue to the various services it provides. The objective is to discover, in effect, all items of expenditure and income that would disappear if the credit operation were dropped, other aspects of the enterprise's activities being assumed to remain unchanged.

A full analysis would be extremely involved. What retailers do in granting and promoting credit has, we saw in Chapter 9, an important influence upon the kinds and amounts of goods they carry, the kinds of sales promotion they use, the kinds and locations of buildings they occupy, the sorts of personnel they employ, and so on through virtually all aspects of retail management. Credit also influences the amounts and types of repair, adjustment, exchange, and the like that retailers must offer their customers as "free service." The effects of these, in turn, are influenced by the relations between credit and the volume of sales, and between the volume of sales and unit costs.

Such considerations lead many merchants to argue that no one can ever really calculate what credit costs, either as a gross figure without allowance for revenue produced or as a net figure after deduction of revenue produced. Similarly, some economists hold that any cost allocations of this sort must be arbitrary and the results meaningless. If this position be accepted, the problem of relating the income from credit to its cost would seem to be insoluble except as the term "cost" is restricted to direct expenditures made in providing the credit service, and income is restricted to direct revenue from credit service charges.

Costs and Prices in Credit Selling.—The vigor of the debate over costs and the adequacy of their coverage by any given price structure comes, not from technical difficulties involved, so much as from the fact that the conclusions strongly affect competitive strategy and especially competitive pricing, some aspects of which we have considered in Chapters 11 and 12. The most common disagreements are as to whether there should be any explicit charge for credit at all, and, if so, how large it should be. Merchants who look upon credit as something they add to their normal range of services for the benefit of only a few customers commonly argue that they should charge the full cost to customers who use it. On the other hand, merchants who sell chiefly to credit customers, or who believe that the indirect contributions of credit to revenue through its effects on volume more than offset the direct and indirect expenditures it entails, feel no obligation to charge individuals for a "cost" they can discover only by elaborate accounting procedures. Merchants whose competitors emphasize something that they denominate the "cash price" in their promotions will have a strong incentive to load as many costs as possible into the carrying charge. In contrast,

merchants whose competitors emphasize the absolute size of the down payment or monthly instalment and the absence of "extras" in their prices have strong incentives to eliminate carrying charges. Similarly, merchants in competition with cash lending agencies want their specific credit charges as small as possible. Such merchants are encouraged to load costs into the aggregate price rather than the credit charge, especially when they sell differentiated products that are not easily compared with the offerings of other sellers.

Other differences in the operations of individual retailers help to explain their disagreements as to whether any specific carrying charge covers "costs." A store that uses collectors to whom it pays a commission of 8 or 10 per cent obviously cannot cover this cost in a small carrying charge. It may argue that it should not because the commission is really one on sales paid as the payments come in. Similarly, as we have seen, large credit losses often are better described as reductions in price than as costs of credit. A large store with a high degree of specialization among its workers may count its credit cost as high because it sees many employees it would drop from the payroll if it stopped selling on credit. A small retailer with a nonspecialized staff may see no employees he can drop if he stops selling on credit. Such a merchant may feel that credit costs him little.

Some merchants largely ignore the cost factor and maintain stoutly that all or most of their profit lies in the credit charge. Apparently they mean that the carrying charge income is larger than the net profit of the store so that, if it were eliminated without being replaced in some form, profits would vanish. The argument has no substantial merit but serves to confuse the issue. Similarly, the argument advanced by some instalment merchants that they get their profits primarily from banking rather than merchandising has little merit. Profits come from the entire business, and allocations of particular bits of income and outgo to specific parts of the operation can rarely be so exact as this. Dealers who get special packs, bonuses, and reserves in their deals with financing agencies also sometimes argue that their profits lie in these particular aspects of the carrying charge. Here again the formal record on the books does not necessarily portray the full facts. The essence of the situation may be simply the merchant's judgment as to what way of quoting prices will arouse the least resistance from prospective buyers.

The Cost of Credit in Furniture Retailing.—The available statistics on the cost of instalment selling have been based on narrow definitions Even within these limits, comprehensive statistics are scarce. Most of those that have been published are intended to support the argument

that carrying charges should be increased if the service is to yield a profit to retailers. For example, the National Retail Furniture Association has long maintained that the carrying charge furniture stores typically add to their "cash" price does not cover even the most direct costs of granting instalment credit. To support this argument the organization's annual reports have compiled figures showing the "net cost" of credit. They compute the figure by setting income from carrying charges and recoveries on bad debts against salaries for credit and collection, provision for bad debts, loss on repossessions, and "other direct credit and collection expense." The net result for the "typical" (i.e., median) store is a loss in most years.[1] In the period since 1939 this loss has ranged from a minute fraction of 1 per cent to nearly 3 per cent of net sales, the loss being largest in the smaller stores. Since the percentages take net sales of all types as a base, they are somewhat smaller than they would be if instalment sales alone were taken.

By far the largest single item of credit cost in most years is the salaries paid staff members engaged directly in credit and collection. Credits that fail to pay out properly, resulting in write-offs and losses on repossessions, are likely to be large in some years and small in others, as we saw in Chapter 17. Over a longer period recoveries offset a large part of the losses taken in any year on accounts that fail to pay out properly. During the war many stores even had recoveries larger than losses. It is thus clear that the principal factors in the net cost of credit are the direct costs of operating the credit and collection departments and the credit service charges, with net loss after recoveries playing little part. It is also clear that on the average the explicit carrying charges fail by an appreciable margin to cover even these narrowly defined credit costs.

The National Retail Furniture Association figures indicate that in 1938 and 1939 direct credit and collection costs of the medium and smaller stores represented a larger percentage of net sales than did the similar figures for large stores. During the war years the medium and smaller stores held the advantage. Apparently they were able to adjust their expenditures for staff in the credit and collection department more promptly than the larger ones as income from carrying charges fell off when the war curtailed instalment buying. Since the war the net credit cost of the smaller stores has again come to exceed that of the larger ones, but for all stores the cost has remained very low.

The Relation of Cost to Carrying Charges.—The "net cost" computed in these analyses has very little to recommend it as a measure of

[1] See the annual reports of the National Retail Furniture Association on operating experiences of furniture stores from 1939 on.

true cost. Charging the credit service with all out-of-pocket expenditures for salaries and other items identifiable as being applied directly to credit or collection is defensible. So is the addition of losses on bad debts and repossessions, provided that these losses are held to their irreducible minimum.[2] It also is appropriate to set recoveries on bad accounts against the losses.

Setting the credit service charges as income against the cost is arbitrary, however, and may be misleading despite its having some significance for management. Thus two stores that charge identical aggregate sums for identical goods and services, that have identical direct expenses for credit and collections, and that have identical net losses may seem to have widely different "net costs" of credit, if one uses a system of offering "cash" prices plus carrying charges and the other quotes "credit" prices with no discount for cash. The difference will arise solely from the fact that one does and the other does not have a formal credit service charge to deduct from the measurable gross cost of credit.

The income from credit service charges has significance for an understanding of the store's pricing policies, and particularly for the way it distributes the direct cost of credit among its various customers. This income does not affect the cost of credit to the store in any fundamental sense, and does not give a valid indication as to whether the credit operation is profitable or not. For that purpose very subtle accounting procedures are required, and in the end even they will produce nothing better than an estimate, since the problem is, in part at least, one of reasoning out what would have happened if the enterprises in question had done something different from what they did in fact.

The "net cost" figure has other important weaknesses that arise out of difficulties of interpreting it. Thus the credit service charge collected may vary in amount either because stores set different formal charges or because they collect a smaller percentage of the charges they technically earn. Dauer finds a substantial variation among cash lenders in this percentage. During 1929–1936, inclusive, the average of charges collected to charges earned by a group of personal finance companies ranged from 81 to 98 per cent.[3]

The "net cost" is also affected by credit policies. A store that accepts poor credit risks or uses lax collection procedures inevitably will have relatively high net losses. Such a store also may have a large markup to offset expected losses, in which event it is not easy to say

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[2] As we have seen, very large write-offs probably should be considered price reductions rather than credit expenses.

[3] E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929–41,* p. 83n. See also M. R. Neifeld, *Personal Finance Comes of Age,* p. 224.

whether the figure for net cost really means anything. At some point not easily determined, a price that includes a substantial percentage which both the seller and the buyer expect to go uncollected becomes an arithmetical formality rather than a statement of a pecuniary transaction. Whether a lower net loss from bad debts is a competitive advantage, as some commentators maintain, cannot be assumed automatically. The store with the lower loss percentage may seem superficially to require a smaller gross margin, but the difference may be in the books rather than in the dollars and cents actually paid by consumers.

The Full Cost of Credit to a Retailer.—Table 51 illustrates the method of estimating the total cost of instalment selling to the retailer by aggregating the expenditures the merchant believes would disappear if instalment sales were replaced by cash sales. The figures were obtained from a large furniture retail store that compiled them for its own information. Its objective was to get as accurate an estimate as possible without resort to elaborate cost accounting. It divided all relevant items of expenditure between what it believed would disappear and what it believed would remain after managerial adjustments in the event of a shift from instalment to charge-account terms. For present purposes it assumed (what no instalment retailer believes) that sales volume would remain at the same levels even if it dropped the instalment service. The percentages in parentheses, indicating the proportion of each item that would be saved by conversion, and some of the costs estimated in dollars, are little more than informed guesses. They have some value, nevertheless, as the best judgments of some exceptionally competent retail executives.

Computations of the sort made in Table 51 mean more to large retailers with specialized staffs than to the small retailers. In small stores a certain amount of the record keeping, interviewing, checking, and collecting can be done in the odd moments of office and sales personnel who must be available for other work. Until the task has grown beyond this point, it is not likely that any substantial savings would result from dropping the credit operation.

Table 51 immediately suggests two conclusions: (1) The number of accounts in which instalment credit costs appear is large. The store compiled these figures to test a "hunch" that the figures on "net cost" published by the National Retail Furniture Association substantially understate the true cost of credit. A careful analysis indicates that credit tends to increase the cost of operating a retail store in many different directions. Even these figures make no attempt to include an allowance for the cost of such things as an increase in returns, ad-

TABLE 51

ESTIMATED REDUCTIONS IN EXPENSE THAT WOULD HAVE RESULTED FROM ELIMINATING INSTALMENT SALES BY A LARGE FURNITURE RETAILER: THREE SUCCESSIVE FISCAL YEARS

Expense Eliminated by Eliminating Instalment Sales[a]	First Year		Second Year		Third Year	
	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half[b]
Net Instalment Sales	$2,653,500	$1,572,998	$2,632,000	$1,704,500	$1,865,000	$1,497,000
Credit and Collection Payroll (75%)	50,305	47,093	49,018	41,144	–	39,589
Accounting (25%)	4,428	4,162	4,912	3,925	–	4,232
Cashier (75%)	3,221	2,977	3,370	2,951	–	3,036
Stationery (10%)	96	59	101	87	–	121
Payroll Tax and Compensation Insurance (5%)	2,902	2,714	2,870	2,405	–	2,349
Supplies (estimated in dollars)	750	750	750	750	–	750
Postage (75%)	4,414	4,945	3,795	4,301	–	3,764
Phone (estimated in dollars)	3,750	3,750	3,750	3,750	–	3,750
Rent (estimated in dollars)	21,950	21,950	21,950	21,950	–	21,950
Interest (90%)[c]	15,525	18,070	14,265	16,020	–	14,100
Net Loss on Accounts Receivable (90%)	88,233	78,135	63,718	78,419	–	48,328
Legal and Collection Expense (95%)	19,286	17,767	16,234	18,040	–	14,790
Total	$ 214,860	$ 202,392	$ 184,733	$ 193,742	$ 136,000	$ 156,759
Per cent of net instalment sales	8.09	12.8	7.01	11.3	7.3	10.4
Carrying charge income	$ 168,481	$ 94,969	$ 142,234	$ 104,005	$ 72,362	$ 71,141
Per cent of net instalment sales	6.3	6.0	5.4	6.1	3.88	4.7

[a] Estimated by taking percentage stated of sum spent which company "thought" would be eliminated by changing from instalment to charge sales.
[b] Estimated from experience in first half of the year.
[c] Interest computed at 2 per cent of *cost* of average outstanding.

Source: Correspondence with executives of the company concerned. All dollar figures have been multiplied by a common factor to conceal identity.

justments, and repairs which most commentators believe to be characteristic of selling goods on credit. (2) The exact cost of credit to a store cannot be measured with any considerable degree of precision. A store's management can make judgments but not exact measures of what its expenditures would be if it stopped selling on credit. This is the characteristic of cost allocation among functions, or among specific units of sales in retailing, that leads some students to consider figures of this sort arbitrary and meaningless. It would seem better to draw a distinction between "arbitrariness" and "informed guessing" and to grant some degree of meaning and utility to figures of this sort.

The figures in Table 51 cannot be compared directly with those in the reports of the National Retail Furniture Association, since the percentages are based on net instalment sales rather than net sales of all types, as in the furniture reports. As measured here, however, both the gross cost of credit and its net cost after deduction of income from carrying charges are clearly much higher than the estimates of the furniture reports. Carrying-charge income during the three years covered represented 60.5 per cent of the estimated cost of writing instalment credit. Thus some two fifths of the cost, if these estimates are correct, was charged to lines of merchandise, departments, and customers in accordance with whatever general principles of cost allocation it follows, rather than to credit buyers specifically.

The store had, in effect, during this period a policy of charging one half of one per cent per month of the original unpaid balance for the term of the contract. The difference between 6 per cent and the sum actually received as income (5.1 per cent over the three years) is due to the percentage of down payment, the proportion of the charge remitted for prepayment, and the length of the repayment term. The larger the down payment or the proportion of the bills prepaid and the shorter the contract terms, the smaller the income from carrying charges will be as a percentage of sales, and vice versa. Consistent differences between the first and second halves of the year are due to even distribution of expenses over the year despite a highly seasonal distribution of sales. The decline in carrying-charge income over these three years apparently reflected increases in down payments and in prepayments on outstanding accounts, as well as reductions in the contract period. Carrying-charge income declined appreciably more than credit expense during the period, so that in the third year a larger part of the credit expense was charged against the entire business than in the first.

The Cost of the Capital Invested in Credit.—Since the carrying charge is sometimes called "interest" by people who talk or write about

instalment buying, it is worth noting that the cost of capital invested in receivables was a very small fraction of the total cost of providing credit covered in Table 51. In the first two years, interest charged against this capital at the rate of 2 per cent per year on the cost of the average outstanding totaled $63,000. This was only 8.1 per cent of the estimated full cost of granting credit during these years ($795,-734), and only 12.5 per cent of the carrying charges paid by customers ($509,779). It was less than seven tenths of one per cent of time sales.

Because the cost of the money invested in instalment accounts is so small a factor in the total, the direct influence of length of terms upon cost should not be exaggerated.[4] Such influence as the lengthening of terms does have is more likely to grow out of increases in collection expense and losses on bad debts than out of increases in interest charges. Furthermore, other costs do not necessarily rise as terms lengthen. Some of them are quite rigidly fixed per transaction, so that, as a percentage of sales, they vary inversely with the size of the unit sale. During the period 1940–1946, the absence of so-called "big-ticket" merchandise led to reductions in average unit sales and adversely affected the cost ratios of a good many retail distributors of durables.

Cost Proportional to the Number of Transactions.—Hardy presents some figures for consumer cash loans that show how large the costs of bookkeeping alone are in the business of retailing consumer credit, and how these costs vary primarily with the number of transactions. His conclusions will hold for much of consumer instalment selling as well as they do for instalment cash lending. A bank lending $1,000,000 in 100 commercial loans on a 90-day discount will have for each 90-day cycle 100 original entries, 100 calculations of interest, and 100 entries of payment. Four such 90-day cycles will entail 1,200 entries for a year's business. In contrast, with an average loan of $160 payable in twelve monthly instalments, the bank will need, according to Hardy's formula, 14,000 loans a year to keep $1,000,000 invested. These involve 14,000 original entries, 168,000 interest calculations, and 168,000 entries of payment. Such figures as these support the contention of small loan companies that they require at least eight persons to handle

[4] The average investment required to support an instalment structure may be computed by the formula

$$a = \frac{n+1}{2K} \times b,$$

where a is the average amount of credit outstanding during the period, n is the average number of instalment intervals intervening between an extension of instalment credit and its repayment in full, K is the number of instalment intervals in the period of time being measured (usually one year), and b is the total amount of instalment credit granted, that is, credit sales less down payments.

the dollar volume of loans one person can handle in a small-town bank, and between fifty and sixty persons to handle the dollar volume of loans one clerk can handle in a large city bank.[5]

Table 52 brings out another important and frequently emphasized fact about the cost of consumer instalment credit. Although the figures are old and the sample small, there is no reason to suppose that better data would change the principal conclusion to be drawn from the table. Analysts should not think of instalment credit as they do of commercial loans, where interest is the important cost factor and the service costs incurred in setting up, managing, and closing the loans are of secondary importance. As Table 52 shows, in personal lending, costs that are uniform per loan regardless of size are more important in the lower sizes of loan than costs that are uniform per dollar loaned. Furthermore, of the "capital cost" that varies with dollar volume, only a part is interest, the rest being bad debts, federal income taxes, and a generous allowance (12 per cent) for profit on the capital funds employed.

The principle that many instalment-credit costs vary with the number of transactions or the number of instalments rather than with the dollar amount of the original or declining balance is particularly important in the retailing of items other than automobiles and large household appliances. It is on the smaller unit sales that high carrying

TABLE 52

AVERAGE COST PER MONTH OF MAKING AND CARRYING A PERSONAL FINANCE COMPANY LOAN, JANUARY–AUGUST, 1931, BY SIZE OF LOAN

Size of Loan	Operating Cost Per Month[a]	Capital Cost Per Month[b]	Total Cost Per Month	Necessary Rate Charge Per Month	Average Balance Outstanding During Life of Loan[c]
$ 30	$1.3256	$ .3021	$1.6277	8.11%	$ 20.06
50	1.3256	.5035	1.8291	5.47	33.43
100	1.3256	1.0071	2.3327	3.49	66.87
200	1.3256	2.0142	3.3398	2.50	133.75
300	1.3256	3.0214	4.3470	2.17	200.61

[a] Investigation cost of $.4185 plus carrying cost of $.9071, irrespective of size.
[b] Amounting to 1.5061 per cent of average balance outstanding.
[c] These figures computed from a sample of loans of all sizes paid off during the period; the sample probably includes loans that were renewed before being paid off.

Source: R. A. Young, *Personal Finance Companies and Their Credit Practices*, p. 129. Based on a brief submitted by the Household Finance Corporation to the New Jersey Small Loan Commission, November 23, 1931, p. 6. The data cover the operations of eight New Jersey offices of this company. The duration of the loans is assumed to be 12.35 months, which is the average for all loans during this period.

[5] C. O. Hardy, *Consumer Credit and Its Uses*, pp. 104, 105.

charges must be levied. If one compares the service charges involved directly with the rates established in the money markets for loans of cash in large amounts, he distorts the facts unfairly.

Indirect Costs and Revenue in Instalment Selling.—Such figures as these make it clear that some expenditures would disappear if retailers dropped the credit operation. In that sense, credit costs the buyer something and there is support for the accusation that when merchants advertise credit at cash prices or no carrying charge they misstate the facts. This statement, although frequently made, does not really settle the issue. In a sense it begs the question because it takes a particular definition of "cost" and assumes without proof that this is the most significant sense of the term from the point of view of consumers. Strong objections will be voiced by merchants who hold that credit does not necessarily cost the credit buyer anything.

Such merchants maintain stoutly that the true cost of credit can be determined only by finding the difference between a store's total cost per unit of goods or per dollar of sales if it sells on instalments, and its total cost per unit of goods or per dollar of sales if it sells strictly for cash or on charge accounts. They assume that credit is primarily a device of sales promotion so effective or a service so necessary to consumers that in its absence operations would necessarily be conducted on a smaller scale with resultant higher costs.[6] The argument derives from the experience of individual stores initiating a credit service in a predominantly cash market or trying to sell for cash in a predominantly credit market. Whether it holds valid for an entire trade at any or all stages of its development is a much broader question to which we must return in Chapter 22. There is no reason to doubt, however, that this line of reasoning gives some color of support to the belief that credit does not cost the consumer anything if "cost" is defined as the difference between prices as they are with credit and as they would be without it.

It also supports the argument that cash and credit customers should pay the same price. If a merchant compares his probable volume under a strict policy of sales for cash only and his probable volume when he sells for both cash and credit, he may conclude that credit will increase his volume substantially. On the assumption that he can increase his sales sharply without making any considerable expansion of fixtures or staff, he may conclude that credit selling reduces both his marginal and his average unit cost so much as to permit a cut in his cash prices. In such a situation, some merchants argue, there is no reason why the

[6] It is important to note that, as is pointed out at various places in this study, any costs arising from credit may be offset primarily by savings in manufacturing if the volume of sales increases.

cash buyer should complain about paying the same price as the credit buyer. Book publishers sometimes sell to credit buyers at lower rather than at higher prices. Having recovered their basic cost for authors' fees, editing, composition, and printing out of subscription sets, they can offer reprints at relatively low prices including generous credit terms that allow for the absorption of large losses, provided the additional income yields something more than the out-of-pocket costs.[7]

Critics sometimes accuse cash lenders of following an analogous policy. Thus, competing lenders say that commercial banks often do not charge the full cost of consumer credit to the borrowers but cheerfully accept a mere contribution to overhead from this particular operation. Chapman reports, however, that most banks have found the volume of business on consumer loans too small to justify the expense and the trouble of cost determination.[8] Credit unions also are accused of undercharging for their services, since some of their costs may be contributed free of charge, as when their offices and clerical help are provided by an employer and their officers serve without pay.[9]

The Price as a Measure of Comparative Costs.—Since these debates over cost are not easily subject to quantitative tests, some merchants who make "no charge for credit" throw them aside. They maintain that the only valid test is in the over-all price. Thus one widely known jeweler who follows a one-price policy and sells to cash and credit customers at the same price, with no explicit carrying charge, argues that credit costs his customers nothing. He asserts that his prices are lower than those of competing retailers who sell goods of similar quality for cash or for cash with a carrying charge. He therefore denies that he charges the customer anything for credit.

The first question is one of fact, to be determined only by careful comparative shopping. However, even if his credit price really is as low as any cash or charge price in the market, the part played by credit in the situation remains uncertain. Credit and cash prices may be the same, not because costs are the same but because this particular enterprise has achieved efficiencies others have not yet imitated at various points in its operations, and feels no strong competitive pressure to differentiate its cash and credit prices. So long as it can offer and sell a bundle of services, including credit for those who want it, at a satisfactory price, it is not likely to separate out particular parts of the bundle for special pricing. To some extent its choice is made for it by its

[7] R. Nugent, *Consumer Credit and Economic Stability*, p. 132.

[8] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, pp. 14 and 239, 240.

[9] M. M. Grobben, *The Cooperative Loan Agency: A Phase of Consumer Credit*, p. 1. Information was obtained by the present writer from one large credit union to the effect that its cost per loan in 1943 was $8.75 although its officers served without pay, it received quarters rent-free, including heat and light, and it had some degree of tax exemption.

suppliers. If the manufacturer establishes resale prices high enough to cover instalment costs, the credit costs the consumer nothing beyond what he must pay for the goods. If the manufacturer forces his distributors to operate on a narrow nominal margin, however, he may in effect force them to piece out the price with carrying charges and with such subterfuges as packs, reserves, and bonuses. These do cost the credit customer something over and beyond what the cash buyer pays.

The Long-Run Effects of Competition.—Presumably competition will settle these issues in due course. Unless the operating advantages of this particular enterprise cannot be copied by others, they will eventually be imitated or even improved upon. Under such circumstances the company will have no large margin into which to absorb the cost of credit. If the experience of the automobile and furniture trades is repeated, the end result will be an explicit charge covering part but not necessarily all the cost of credit. The likelihood of this result will be made still greater if specialized financing agencies take over a larger part of the business.

Where advertising stresses price and invites price comparisons, the pressure for separate statements of price and carrying charge and for a fully compensatory carrying charge will be strengthened. This is likely where conspicuous merchants advertise "cash" prices aggressively. It is even more likely where manufacturers advertise list prices substantially lower than the prices consumers actually pay. This kind of pricing is illustrated in extreme form by the automobile trade. Here the advertised price may understate what the consumer really pays after counting in all extra charges, fees, and taxes by $100 or $150 or even more. When allowance is made for all the packs and reserves loaded into the carrying charge, it seems probable that the credit customer has been discriminated against rather than the cash customer in this trade. The rapid growth of competition for the automobile financing business may be evidence that credit buyers have been paying too much for the service.

Things may work themselves out the other way round for some consumers who respond to a fairly high price and a low credit service charge more eagerly than to a low price and high credit service charge. Merchants who appeal to such consumers may find in a low charge an effective answer to aggressive efforts by banks to participate more directly in consumer instalment financing. This is true particularly where products are so differentiated as to make direct comparisons of prices for goods difficult.

The final answer lies partly in the unexplored and possibly unexplorable recesses of human psychology. The recent movement has been

toward separate statement of price and credit service charge and toward loading a larger part of the total price into the charge. One may guess that, as instalment buying moves toward maturity in any trade, it loses some of its effectiveness as a device of sales promotion. As merchants and cash lenders come to offer it universally, it develops into a service to be bargained over. One should not expect them, however, to come very close to uniformity. Retailers differ among themselves, and from financing agencies, as regards the economic and social elements included in the "bundles" they sell. There are many opportunities for each enterprise to single out particular groups of consumers as potential customers. Uniformity is not a necessary end product of competition under these circumstances.

The Inevitability of High Unit-Costs for Consumer Credit.—Even when competition has worked itself out, the direct costs imposed by instalment buying upon the sellers probably will be large enough to provide a color of support for complaints that the costs of the system are "too high." Credit in small units is inevitably expensive when compared with commercial loans, even if all costs have fallen to their lowest feasible levels. Like any other kind of retailing, the business of retailing credit involves high costs percentagewise. That being true, analysts and critics must repeatedly come back to inquire whether the costs are higher than they need to be; whether competition has held profits to reasonable figures and forced the adoption of the most efficient methods; and whether the cost is "too high" in the sense that it is an unwise expenditure for a great many consumers even though it is provided efficiently.[10]

Since fixed costs play a considerable part in retailing, there would seem to be possibilities of achieving substantial economies by enlarging the scale of operation. Some commentators have accordingly proposed that the number of credit agencies be reduced by licensing. The argument has come chiefly from small-loan organizations, but it applies equally well to retailing in general. It is, of course, merely another variant of the familiar proposition that there are "too many retailers." The statement has a superficial appeal, but it weakens under analysis when consideration turns to the fact that at some point any economy must break its products down into very small units for use by individual consumers. The service of consumer credit is no different from other consumer products in this regard. So long as consumers use goods and services (including credit) in small units, small-scale opera-

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10 Some of these matters are discussed further in F. H. Clarkson, *Social and Economic Justification for a Phase of Consumer Credit,* New York, Consumer Credit Institute of America, 1937, pp. 5, 6; M. R. Neifeld, "What Consumer Credit Is," 196 *The Annals of the American Academy of Political and Social Science,* pp. 63–73 (March, 1938); and M. G. Reid, *Consumers and the Market,* New York, F. S. Crofts & Co., 1938, pp. 264–269.

tions must remain in the economic picture. Apparent savings from increasing the scale of retailing are likely to be offset by monetary or real costs imposed upon the consumer at some other point in his activities.

The Trend of Cost.—Since adequate statistics do not exist, it is impossible to say how costs have changed in instalment selling over the years. As would be expected, consumer instalment financing agencies have benefited from the persistent decrease in interest rates since 1929. The most comprehensive collection of data on the subject shows that the cost of funds to sales finance companies, personal finance companies, and noninvestment industrial banks dropped substantially from 1929 to 1941, that for investment-type industrial banks dropped less substantially, and that for credit unions rose.[11] Information from other sources makes it clear that retailers as a class have had the same experience of decreasing money costs as have most cash lenders. By 1941, for most of these agencies interest rates had fallen so low as to have little practical significance in the cost of the services they render to their customers. The decrease came largely from the general reduction in interest rates, but also in part from the progressive opening of the general money market to consumer-credit agencies.

As to costs of instalment lenders and sellers other than interest paid for funds borrowed, there are no data from which to derive trustworthy conclusions concerning trends. We have already seen that the trend of formally stated carrying charges for many instalment agencies has been downward for some years. How much this decrease has amounted to when allowance is made for all the indirect ways of changing retail prices, how much of it has been due to reductions in costs other than interest on money borrowed, and how much has been squeezed out of high profits by more effective competition cannot be determined in the absence of empirical studies more comprehensive than anyone has as yet found it worthwhile to make.

Profits in Instalment Selling.—Accurate statistics on profits earned by instalment retailers do not exist. Individual merchants who have made substantial fortunes out of the business can readily be found. For none of them has the present writer discovered any data that show how much of the accumulation may be attributed to the instalment operation and how much to other aspects of the enterprise and their management. Furthermore, no comprehensive data known to the present writer permit a judgment as to average or representative earnings of instalment sellers, making allowance for failures and for in-

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11 E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1920–41,* pp. 142, 143.

conspicuous stores that never achieve either large volume or large profits.

Writers sometimes say, especially those critical of instalment buying, that this business has reaped phenomenal profits. Thus Cohn refers to "rich pickings" provided by the development of the instalment system in the automobile industry thirty years ago. He says they attracted "a various tribe of moneylenders and money sharks" who were in turn driven out by "the big fellows" when "it was seen that the profits were large and the risks negligible." [12] Since he gives no specific data to support his statements, they must be dismissed as examples of prejudice and hasty generalization rather than as valid history.

Interviews with merchants and others active in instalment selling give some ground for believing that instalment credit in various trades has gone through bonanza periods during which profits have been high and easily earned by the alert and aggressive few. The first enterprises to introduce the system to some field such as furniture or musical instruments, automobiles or jewelry, did have an opportunity to make especially large profits. Here again, however, it is easy to forget the enterprises which failed even under the generally favorable circumstances. In any event, competition is soon attracted to the field and this forces profits downward.

The tremendous pressure of retailers, banks, and other financial agencies to break into instalment retailing before World War II, which is even more apparent now as regards the banks, can be taken as persuasive evidence that the field has been a profitable one. So can the rapid expansion of credit jewelry retailing. The remarkable expansion of automobile financing during the years when that industry was making its large growth correspondingly indicates the presence of attractive opportunities to make profits. The ways in which these booms have worked themselves out, however, indicate that competition eventually gets things under control.

Mitchell offers some evidence to support a conclusion that credit selling helps a store owner earn a larger monetary return for his efforts by increasing his volume rather than by increasing the margin of net profit on each sale. In a survey of trades where the retailer has a real choice between cash and credit selling he finds evidence that credit increases sales in the fact that credit stores almost invariably average larger volume per store than do cash stores in the same trade. Net profits per dollar of sales are smaller for credit than for cash operations, but the aggregate dollar return to the store owner is larger because the volume is larger.[13]

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[12] D. L. Cohn, *Combustion on Wheels*, p. 249.

[13] W. L. Mitchell, *Standard Ratios for Retailing*, New York, Dun & Bradstreet, 1940, p. xx.

Returns on Investments of Financing Agencies.—The most meaningful measure of profitability is the return earned by an instalment seller on his investment in the instalment business. Data assembled by Dauer permit some judgments concerning the profits in this sense of cash instalment lenders, although they are not completely satisfactory.[14] For each of six types of cash lender, and for as many as possible of the years 1929–1941, inclusive, Dauer computed average net profits as a percentage of net worth. The companies varied widely as to (1) the percentage consumer instalment represented of their total business and (2) the percentage represented by owner's equity in each instance. It is thus impossible to tell how much of the wide variation in profit rates was due separately to differences in charges imposed, differences in cost, differences in the profitability of consumer loans and other business, and differences in the percentage of owners' equity. However, some significant conclusions seem possible:

1. The returns received by companies that concentrate a large part of their capital in the business of consumer financing were large over the thirteen years covered. These include sales finance companies, personal finance companies, and industrial banks.
2. Among sales finance companies, the national companies generally managed to make larger profits than the regional companies, and these generally exceeded the local companies.
3. Among personal finance companies, the largest earners were commonly regional companies, with national companies next and local companies slightly lower.
4. Among the industrial banks, the profits of larger companies ordinarily exceeded those of the smaller companies.
5. The profits of credit unions were lower in almost every year than those of any other type of lender.
6. The profits of personal finance companies fluctuated less violently from good to bad years than those of sales finance companies, and much less violently than those of commercial banks. Only the commercial banks experienced a prolonged period of net loss during the worst years of the 1930's.
7. Over the entire period the earning rates of personal finance companies apparently average about as high, and possibly a bit higher, than those of sales finance companies. Since the owner's equity in personal finance companies is comparatively high, this means that the profit from each dollar of loans to consumers is relatively high.[15]

[14] E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Banks, 1929–41,* pp. 155, 156.

[15] R. A. Young, *Personal Finance Companies and Their Credit Practices,* p. 107, points out that the relatively high earnings of personal finance companies are significant in the light of their insistence upon their need for high rates to cover high costs of providing their service.

8. The relatively low return to commercial banks on their net worth, and the severe losses sustained in the early 1930's, help to explain the aggressive determination of many banks to enlarge their operations in consumer financing during the present postwar period.

Commenting on his own data in this and other tables, Dauer finds that because of high earnings specialized consumer instalment financing agencies paid dividends to their stockholders representing a percentage of net worth higher than what commercial banks or corporations in general were able to pay out during the period. This was true even though specialized agencies paid a smaller proportion of net profits in dividends.[16] Chapman finds evidence in a limited sample, however, that commercial banks have received profits from their personal loan departments considerably larger than their returns on other earned assets.[17] Data given by Ayres indicate that the high earnings of sales finance companies come more from their ability to trade on a small equity because of their access to bank funds than from large margins on individual deals.[18] Plummer and Young find further evidence of the exceptional profitability of the sales finance business during the interwar years in a low failure rate. They attribute the high profits to an expanding market for the services of these companies, flexibility in being able to reduce operating expenses and increase charges during periods of cyclical decline in business, and restrictions on competition arising out of the system under which particular companies held favored positions in the financing of General Motors, Chrysler, and Ford cars.[19]

The Significance of Gross Margins in Instalment Retailing.—Criticisms of instalment selling sometimes turn upon a consideration of the gross margins retailers receive. This is obviously not fair, since the net return to the retailer is always a small percentage of the gross margin. In fact, gross margins are not even very meaningful measures of the cost of the instalment service to the consumer. Much of the apparent belief by critics that instalment operations entail high costs for retailers arises from a failure to differentiate the influence of the instalment service itself from the many other factors which account for the gross margin in any given store or trade.

For example it is misleading to compare the margin a retailer charges for handling an item of furniture with an item of staple gro-

[16] E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929–41,* Chapter VIII, especially p. 154.

[17] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit,* p. 16. It should be noted that bank earnings are greatly affected by Federal Reserve and Treasury policies.

[18] M. V. Ayres, in J. H. Cover (editor), *Financing the Consumer,* p. 95, 96.

[19] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices,* pp. 27, 28, 250–252, 254–256 and 285.

ceries. On the one hand, many of the costs of handling merchandise (such as storage, physical handling, refinishing, display, and promotion) are smaller for staples of low unit-value and frequent purchase at near-by locations than they are for larger items purchased at infrequent intervals after prolonged shopping. On the other hand, even where substantial outlays are required, they may be paid by the manufacturer rather than by the retailer so that they appear as a relatively high cost of distribution for manufacturers offset by a comparatively low margin for retailers. In the light of these circumstances, comparisons of the margins charged by different retailers are very difficult and must be handled carefully. For what they may be worth, however, some statement of the kinds of margins instalment retailers charge in practice should be made.

The Size of Gross Margins in Instalment Retailing.—Many instalment retailers compute their markup on cost as a base, defining cost to cover the amount of the invoice plus inward transportation. Thus they speak of a markup of 100 per cent when the retail price is twice as large as the invoice price plus inward freight on goods. Or they refer to markups of 1, 2, or 3 numbers when the margin added is 100 or 200 or 300 per cent of the cost. Other retailers quote their markup as a percentage of the price paid by the consumer. On that basis a one-number markup is 50 per cent, 1½ numbers is 60 per cent, 3 numbers is 75 per cent, and so on.

Figures obtained by the present writer in interviews, and converted to retail where necessary, indicate that, for the overwhelming majority of jewelry stores who merchandise aggressively on credit, the original markup on their goods will average between 50 and 60 per cent on retail, and that their maintained markup or gross margin will average in the upper 40's or lower 50's.[20] This margin includes credit service charges where they are quoted separately. Some stores have markups considerably higher than the average, but there are a good many whose average will fall below it. On individual items the margin will vary widely. Furniture stores apparently average a few percentage points below jewelry stores, where credit service charges are included, although here also a good many individual stores fall at either higher or lower levels. Clothing stores average still lower on their maintained markup, except in the extreme types of "borax" operation, where a very high markup, as we have seen, is likely to be offset by a very high write-off, so that many, and perhaps most, customers do not pay it.

On major household appliances, and notably on refrigerators, where the resale price is established by the manufacturer, the apparent markup

[20] No allowance is made in these markup figures for Federal excise taxes. The maintained markup is based on the price actually received after all discounts and markdowns.

is relatively low (40 per cent or less), but this markup usually does not include the carrying charge, since much of the instalment financing in this field is done through financing companies. If allowance is made for the carrying charge, the true markup is likely to fall between 40 and 45 per cent of the aggregate price paid by the consumer for goods and credit.

As we have seen, automobiles are priced in ways to confuse the issue. The industry sometimes boasts that it sells at a retail markup of 20 or 25 per cent, but this is on the basis of f.o.b. factory prices. When allowance is made for transportation, taxes, services, "extras," and finance charges (including packs, bonuses, and reserves), the true markup is likely to be nearer 35 or 40 per cent.

Most of these figures seem high when compared with so-called "department-store markups." The average department-store markup on all goods during the years immediately preceding the war ran somewhere in the neighborhood of 35 per cent. On furniture, with which comparison is most commonly made, a maintained markup of 38 to 42 per cent is common for department stores, but this does not allow for the credit service charge, which is likely to add another 3 or 4 per cent.[21] Similarly, figures of credit jewelers seem high when compared with the markups of the very large, so-called "cash" jewelers. The best of these apparently can operate profitably on a markup of around 40 per cent, some falling a bit below, others a bit above this figure.

Problems in Comparing Markups.—Many factors influence the final average markup. Some items sell at little or no markup because they are used as promotional leaders. Some sell at either less than or more than the average markup because that is the policy of a particular manufacturer in setting his resale price. Other goods sell at less than the average markup because they are standardized and identifiable by consumers who can shop vigorously. Still others sell at higher than average markups because the consumer must "buy blind" and cannot shop so effectively. Appliances may sell below the average for a jewelry store because the jeweler has gone outside his normal field and must meet the markup of other trades in order to compete. Goods of very low unit-value are likely to have markups above the average simply because many costs of operation are relatively fixed per transaction regardless of the dollar amount involved. Correspondingly, markups are likely to be lower if the unit sale is large, as with the larger diamonds.

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[21] Competing retailers maintain also that department stores operate their furniture units as loss departments. This is true of many stores when their costs and profits are allocated by the system worked out by the Comptroller's Congress, but there has been much debate as to whether the system gives a true picture.

On very large jewelry sales, even 10 or 20 per cent may be enough to give the retailer several hundred dollars as his share of the transaction.

Whether a comparison of average markups has any real significance under these circumstances is doubtful. The difference between a 40 per cent average maintained markup in, say, a large metropolitan cash jewelry store, and 50 per cent in a near-by large credit jewelry store, may lie not in the cost of credit but in the fact that one store does the bulk of its business in items running above $100 and has many sales running into thousands of dollars, whereas the other does the bulk of its trade in items running below $50 and practically never goes above $200 in unit sales. Similarly, differences between stores may be due chiefly to differences in assortments of goods or to differences in assortments of service, or to differences in proportions of cash, charge, and instalment sales. Even house-to-house operations, although admittedly relatively costly, may explain part of their costs by the smallness of their unit sales rather than by the costs of credit.

Under these circumstances meaningful comparisons can be made only between individual items of equal quality, offered with similar assortments of service, and with all elements of the "price" similarly treated. No such comparisons have been made as yet on any considerable scale. The present author has also been unable to find any data that permit judgments as to whether the net profits made by retailers out of the instalment business are large or small. An occasional store has given him access to its accounts, and such data rarely show anything spectacular. They are too few and too scattered, however, to permit meaningful statistical analysis.

CHAPTER 19

ETHICAL STANDARDS IN INSTALMENT SELLING

Nothing in instalment buying has been attacked more persistently or more severely than its ethics. The attacks have been widespread. They have left one effect that cannot be ignored. Among many of the country's opinion-forming groups, and especially among those who have read about instalment buying rather than experienced it, the instalment system has a bad name. No study of instalment buying can be complete unless these protests are considered carefully and their validity evaluated. The present chapter undertakes this task. In so doing it will pay little attention to questionable practices that may be found in all types of retailing or even throughout business life. It will concentrate attention upon practices restricted to instalment selling as such.

For purposes of analysis, the abuses attributed to instalment selling can best be grouped into three classes: (1) those that appear in the sales promotion of instalment sellers; (2) those that appear in pricing practices and procedures; (3) those that appear during collection, especially of delinquent accounts. In the present chapter we shall first consider in some detail the sorts of abuse embraced under these headings, and then look into the available evidence concerning their frequency.

Deception and Misrepresentation in Sales Promotion.—The most serious abuses in sales promotion are varieties of deceit and misrepresentation. For example the salesman or merchant may seriously deceive a customer as to the legal nature of some document. A form described as a receipt for merchandise left on approval turns out to be a binding contract of sale; or a guaranty signed by a friend or relative of the buyer turns out to be a continuing guaranty covering unlimited future purchases. Perhaps misrepresentation takes the form of a difference between oral statements made to the customer and the written contract. The customer who fails to read and understand his contract word for word, fine print and all, may find that he has obligated himself to terms different from those he had expected and to pay various fees and charges of which he had no knowledge. In practice it is often difficult to decide who tells the truth as to the oral understandings, but obviously a merchant can often take advantage of such a situation.

Another form of misrepresentation may occur when the merchant refuses to return a supposed down payment if his credit office refuses to approve the contract. He may even plan to catch in this trap customers to whom he has no intention of selling on credit. The credit sale thus becomes a device for coercing customers into lay-away or cash purchases where they had expected to buy on credit. This practice is closely related to that of a merchant who advertises generous credit terms as being freely available to all, but actually writes them for only a rigorously selected few. Although it may inconvenience and embarrass the rejected customers, this practice probably does little serious damage except when it traps the customer into putting up a deposit or subjects him to virtually inescapable sales pressure. Thus one furniture merchant, talking to the present author about what he called "the old days," said, "We never used to let a customer get out of the store without selling him something, even if we had to sell him the moon and argue about delivery later."

This type of abuse is simply a variety of leader advertising—attracting trade by offering goods or services the store will in fact try to avoid selling. It is to be found in some form throughout retailing, the particular form being the only thing peculiar to instalment selling. Critics also condemn the sales promotion of credit merchants as tending to make the consumer forget that when he buys on credit he assumes a binding obligation enforcible by strong sanctions. Many credit men themselves emphasize the necessity of "educating" the consumer to appreciate that a debt is enforcible by pointing out clearly what he has agreed to do and by checking him closely in the early weeks of the payment period. What some critics object to is that many merchants start this "education" only after the customer has signed the contract. The critics also find misrepresentation in the delivery to customers of goods different from those sold on the floor or mentioned in the advertisements. Any merchant selling goods whose quality is not easily determined or compared by his customers can do this.

Other Abuses in Sales Promotion.—All of the foregoing practices can be grouped as deceptions of the buyer or some other party to the contract concerning the nature of some essential part of the transaction. Other so-called abuses in sales promotion do not lend themselves to such easy classification. Some reflect primarily differences of opinion as to what terms are "sound." Aggressive promotions intended to induce, or, as the critics might say, to entice the consumer into buying on "unsound" terms can, of course, be considered abusive. The advertising of "no charge for credit" and the failure to quote an explicit

credit service charge (both of which we have discussed earlier) are sometimes called "abuses."

Abuse and deception in sales promotion depend not only upon the desires of the seller but also upon his having advertising media and other devices of sales promotion that will do what he wants. Weak newspapers and radio stations are more likely to accept doubtful advertisements than are strong ones. Similarly, serious unemployment makes it easier to find unscrupulous salesmen. At least some of the abuses complained of are thus, in a sense, cooperative abuses rather than sins of the instalment seller alone. Better Business Bureaus recognize this fact in trying to keep advertising on a high ethical plane by working with both the advertisers and the media.

Deceptive Pricing in Instalment Selling.—Criticisms of instalment pricing abuses concern themselves largely with various devices said to have the effect of making the price seem lower than it is. We have already seen in Chapters 11 and 12 some disagreements and difficulties that arise in determining and stating the "true" price of instalment credit. Additional emphasis is here put upon concealment of the prices charged for goods bought on instalments in the various types of packs, bonuses, and reserves there discussed. Some additions to the nominal price take the form of "exorbitant" charges for services such as insurance—"exorbitant," that is, because they exceed the cost to the merchant or the finance company. Sometimes the customer pays a fee for a nonexistent service, as when he pays an insurance premium but receives no insurance. These concealed items sometimes exceed the dealer's entire net return from the transaction. A few finance companies put some restrictions on these practices, but generally they have been disposed to let matters go pretty far before acting. Some of them have even encouraged deception, as we have seen, by providing multiple charts that permit the dealer to quote rates to the customer different from those actually charged by the company.

The assumption underlying criticisms of these practices is that the customer does not watch his financing charge as closely as his cash or base price, and, on automobiles, his trade-in. By manipulating the charges the merchant can mislead an unwary consumer into thinking his bargain on other aspects of the sale is better than it is. Whether the buyer actually suffers any ill effects is another matter. That can be tested only by determining whether the net profits of the dealer and financing agencies are excessive. If these profits are reasonable, it would seem to make little difference to either consumer or dealer whether they appear as formal additions to the price of the goods, formal additions to the carrying charges, or unexplained additions to items

ostensibly paying for other elements of the cost. That they offer a way of overcharging the careless buyer is, of course, self-evident.

Abuses in Collection.—By far the most numerous, and in some ways the most serious, accusations against instalment selling concern themselves with practices used in collecting accounts. To some extent the practices complained of represent simple adherence to the strict letter of the law. We saw in Chapter 7 that contractual agreements between instalment buyers and sellers are governed not only by the formal letter of the written contract but by a great and varied mass of customs that determine what the words mean. An individual merchant can sometimes abuse customers who take it for granted that local customs, not the terms of the contract, will determine the real nature of the agreement. As long as he has a supply of "suckers" upon which to draw, he can use both the reputation of the trade for mildness in selling and the rigors of the law in collecting.

One reason why critics object to the one-sidedness of many instalment contracts lies in the opportunity it gives the unethical merchant for unfair dealing. Most merchants do not want or expect to enforce their contracts literally. In effect, they lead consumers to expect, as a right, certain privileges nowhere written down in black and white. In so doing they give the unscrupulous merchant his opportunity.

Critics of the collection practices of instalment sellers, however, have much more specific and more serious matters than this in mind. They protest, for example, against the use of instalment selling as the cover for an illegal loan shark business. This kind of thing is illustrated by the so-called jewelry lending racket. Here an individual buys, say, a ring at a high price. The seller knows that the buyer expects to pawn the ring immediately for a much smaller sum; in fact, the seller ordinarily will have made arrangements for the purpose with a pawnbroker. In time the buyer is supposed to redeem the ring at the pawnshop and return it to the seller. Meanwhile he pays interest on both the purchase price and the amount borrowed from the pawnbroker and may be forced to pay additional fees. Every variety of abuse is used to enforce payment. Such transactions are not true instalment sales but give the system a bad name.[1]

Frauds and Trickery in Collecting.—Much more serious than the foregoing as abuses of instalment buying itself are outright frauds of various kinds perpetrated in collecting from buyers. A very old one is falsification of the customers' accounts. The practice has never been

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[1] See J. J. Wilson, *Report on Municipal Garnishee Racket to Willian Copeland Dodge, District Attorney, New York County,* 8 pages (mimeographed), for a description of the jewelry lending racket in New York City during the middle 1930's.

very common, but it has existed. Few customers voluntarily keep accurate records of their own, and most of them skip a payment or two during the life of the contract. It is thus relatively easy for the merchant to find customers against whom to charge an additional instalment or two after they have paid all they rightfully owe. House-to-house collectors of the low-grade instalment business in "the old days" apparently often found it possible to collect an extra payment or two from many consumers. Even if the customer objected, they could sometimes convince him that he remembered his payments wrongly.

False legal documents of various sorts also belong in the category of fraud and trickery. Instalment sellers sometimes use demands for payment simulating summonses or even court decrees. Sometimes such papers are issued by marshals, magistrates, or justices, even though they have no real standing in court.

This kind of abuse is closely related to the use of force or trickery in order to repossess goods on which the seller claims payments are overdue. Goods such as automobiles found on the public highways sometimes are taken by a representative of the creditor, the debtor having no recourse other than to go to court or to make his peace with the creditor. Other goods may be regained on the pretence that they need repairs or adjustments. Critics of instalment buying condemn this sort of thing as tending to deprive the buyer of an effective defense. A debt is not payable simply because some merchant says it is. These critics commonly overlook the very real and serious legal risks run by any one who uses these tactics. Prosecuting attorneys and courts are increasingly hostile to them.

More abusive still are instalment sellers and lenders who plan their operations so as to make money not out of legitimately financing the sale of durables so much as out of getting their customers into trouble and extorting fees and charges for reinstating the contracts. Widely publicized among these practices is the so-called "snatchback," where the merchant traps the purchaser into a technical default and promptly repossesses the goods. The consumer can redeem the goods only by paying high charges for refinancing, attorney's services, court costs, storage, interest, and so on. This abuse sometimes takes the form known as "kiting." A buyer finds that the merchant has sold his contract without notifying him. He cannot locate the agency that now owns the note in time to meet a payment due and falls into technical default. The financing organization then refuses to reinstate the contract, to suspend any legal actions it may have filed, or to return goods repossessed until various penalties and fees have been paid.

Sellers can sometimes trick their customers into technical defaults by enforcing or threatening to enforce the letter of the law contrary to

trade customs and practices in the community. Once a default has been brought about, the seller can threaten to use the acceleration clause so as to make the whole debt payable immediately. Since consumers who buy on instalments ordinarily cannot pay at once, some of them will find themselves embarrassed and forced to make an unfair settlement. This is especially true of customers who do not know how to deal with legal proceedings and who may settle on unfair terms.

The difficulties of the consumer who is forced into a situation where his goods are repossessed do not necessarily end with the fact of repossession. The sale of the repossessed goods may be rigged so as to result in less than true competitive prices. When they have been sold at low prices, possibly to a confederate of the seller, the transaction may work out so that the seller makes profits separately out of the original sale, various fees and fines assessed against the customer for default, the resale of the repossessed goods brought in at a rigged sale, and a deficiency judgment against the creditor for the difference between the amount of the original debt and the amount realized in the formal sale of the repossessed goods. Under some circumstances the handling of the repossessed goods may be made technically as well as actually fraudulent by holding illegal sales or filing false affidavits reporting sales that have not in fact been held.

Harassment of Debtors.—Where repossession is unprofitable or impossible, a seller can sometimes adopt harassing techniques of collection.[2] One abusive collection method is to shame and humiliate the consumer into paying. Here, too, the validity of the claims may be ignored. One device sometimes used has been a brightly colored, conspicuous collection truck that in effect advertised to the neighbors what was going on. The same general effect of shaming the debtor has been achieved by noisy collections, by posting abusive signs on the door of his home, and by sending talkative collectors and investigators around through the neighborhood to ask where the debtor is. The debtor himself can be, in a phrase sometimes used, "chased mercilessly." He may receive telegrams, perhaps at night or at his place of employment, or be called by the telephone two or three times during the night, or be threatened with publication of an advertisement calling upon him to pay up. The collecting organization may employ attractive women as collectors, their principal objective being to get the debtor in trouble at home if he does not pay up. The debtor's livelihood may be endan-

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[2] The harassing techniques here under consideration involve legal hazards for the seller. See D. W. Strickland, Jr., "Legal Liability in Collection Letters," *Commercial Law Journal*, March, 1939, p. 69–71, for a description of the remedial actions open to debtors under such circumstances. In practice the risk of paying substantial damages to abused debtors is probably not very great for those merchants and finance organizations who deal with poor, ignorant, and timorous buyers.

gered by having the collector make a nuisance of himself at his place of employment.

Some of these procedures, it will be noted, annoy, upset, or even distress people other than the debtor. Skip tracers sometimes go to extremes in their complete disregard for the rights of others. Supposed associates, friends, or relatives of skips may receive letters or telegrams worded in such a way as to suggest that someone they know is in the hospital or has suffered some other misfortune.[3] This is somewhat akin to the device of baiting requests for information concerning the whereabouts of the debtors with the intimation that the inquirer plans to inform him of some good fortune, such as an unexpected legacy. The Federal Trade Commission in 1943 initiated a policy of proceeding against such practices as constituting unfair and deceptive competition.

The pressures and threats used by these relentless collectors sometimes come very close to blackmail. Debtors may be tricked into doing something unlawful and then threatened with exposure and prosecution if they do not meet the demands of the creditor. Thus an inexperienced buyer may be induced in all innocence to fill out a check which both he and the creditor know is worthless, and then threatened with prosecution for issuing a rubber check. In extreme cases instalment debtors find themselves or their families threatened with physical violence. Such extremes usually appear, however, in the operations of unlawful loan sharks rather than in the sale of goods on instalments.

Misuse of Public Agencies in Collecting.—Abusive collections become particularly vicious when they involve the misuse of public agencies. It is not unusual in some jurisdictions for marshals, justices of the peace, police officers, and other officials to become in effect paid collectors of instalment sellers. Sometimes they act unofficially, as when a marshal or a policeman receives a small fee for giving a debtor some "friendly" advice about settling up before he gets into trouble. Often the purpose is to frighten or intimidate the customer into paying a debt he has refused to meet when solicited by other means. Although acting unofficially, the officer may appear in his official car or truck and threaten to hold a public sale or post notices at the home of the consumer.

It is hard to think of any valid defense for this private use of public officials. Even more serious, however, is a corrupting of the official processes of the law that sometimes develops. In some jurisdictions justices of the peace or analogous officers receive fees when debtors come before them. Since their income grows as the number of their

[3] See T. McMorrow, "Skip Tracers," 216 *Saturday Evening Post,* No. 12, pp. 20, 97–98 (Sept. 18, 1943), for a description of some of the more abusive methods used in tracing skips.

cases increases, and the cases are brought by the creditors, they are under pressure to be hard on debtors in order to attract business. This leads to situations in which the justice becomes a collector with coercive powers who acts without regard to the true merits of any defense the debtor may have.[4] Garnishment proceedings may be seriously misused. Thus a seller may garnishee immediately when the buyer has missed one payment, his objective being not so much to collect through filing the garnishment with the employer as to hold a threat over the buyer. Workers' wages may be garnished without their having an opportunity to present a defense. Sometimes this is done through the issuance of fraudulent proofs of summons by constables or other officials.

Where public officials involved are corrupt or complacent, some of these devices put the purchaser virtually at the mercy of the seller. Such extreme results are fortunately rare, however, and can be effective only against very ignorant people or debtors who fall into what we have called the pathological class. For some debtors of this type close controls may be established through social agencies. As was shown above, the author has found one instance of a credit union which clamps controls on its worst offenders that are more extreme than anything he has found in the field of instalment selling. This particular union has made arrangements under which the salary checks of its seriously delinquent borrowers are paid to it rather than to the borrower. It may also require the signing of resignations in blank, thus putting the debtor on notice that he can be forced to quit any time he fails to conform to the rules laid down for him by the credit union. Although the author found no evidence that these methods were abused in this particular case, it is self-evident that they lend themselves to abuses so serious as to make it doubtful whether any private organization should be permitted to use them at all.

Abuses of Financing Agencies.—The abuses thus far described have been abuses of debtors by instalment sellers. It should be noted in passing that financing agencies also must beware of unethical and dishonest practices. A dealer may use various devices to inflate the value of the assets against which he is borrowing. One of these is to misrepresent the size of the consumer's equity in the merchandise being sold so as to mislead a finance company into lending a larger proportion of the true value than it intends to. The deception may be accomplished by adding goods to the bill that are not delivered, manipulating trade-ins, recording down payments not made or larger than those actually made so as to inflate the ostensible value of the goods, and resorting

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[4] L. Kennedy, "The Poor Man's Court of Justice," 23 *Journal of the American Judicature Society*, pp. 221–224 (April, 1940) describes in detail a situation of this sort in Pennsylvania.

to so-called phantom transactions where documents are made out for sales that have not taken place. One reason why finance companies prefer payments to be made directly to them by customers rather than through the dealer is that they then establish a control over some of these dangers.

Finance companies are also subject to abuses in their wholesale financing of the dealer's own stock of automobiles. The most serious danger here is that of duplicate wholesale financing by different finance companies. The dealer may do this by giving the same stock as security to two companies or selling his retail paper to one company without repaying another company the sums it advanced him for the financing of the goods while they were still in his ownership. To meet this sort of abuse the finance companies have set up a filing bureau that tries to keep records of the individual cars financed by member companies at wholesale and at retail. With such a system it is possible to catch most dealers who try to finance a car they have already used as collateral without closing the first transaction.

Standards by Which to Evaluate the Ethics of Instalment Sellers.—We must admit, then, that the abuses to which some instalment sellers have subjected some of their customers make up a long list. But how prevalent are these practices? How often do instalment sellers abuse the instalment system in these or other ways? On net balance, does the instalment business rank high or low in its ethics? These questions, like many others in instalment buying, are highly controversial; and the controversy is extremely difficult to resolve. Usable quantitative data are extremely scarce. There is, furthermore, no readily usable, generally acceptable yardstick by which to measure degrees of height and depth in ethics.

The difficulty of setting a standard by which to evaluate the behavior of instalment sellers becomes clear when one considers the various choices open. One possibility would be to compare instalment merchants with merchants who do not sell on instalments. Some officials of Better Business Bureaus interviewed by the present writer hold that by this standard instalment buying is no worse than other trades; other officials maintain that it is worse. If trades could in fact be compared, we should presumably have a meaningful judgment. Another comparison would concern itself with trends. Is instalment buying better, worse, or no different from what it has been in the past? A third comparison might set actual business practices against abstract or ideal standards of behavior, but such a procedure would tend to prejudge the trade in selecting the standards.

Even if the kinds of comparison to be made are agreed upon, there remains the problem of selecting the parts of the instalment business to be evaluated. Shall the trade be judged by its best, its worst, or its average? Critics of the business tend to judge it at its worst. They take scattered complaints to Better Business Bureaus, Legal Aid Societies, relief agencies, or investigating bodies as descriptions of what the business as a whole is like. Are such complaints more or less significant than the letters of appreciation, thanks, and commendation most reputable instalment merchants receive now and then from customers? Instalment sellers prefer to judge their trade by these sorts of evidence.

Mussey makes a clear distinction between the "legitimate" and the "illegitimate" instalment trades: "If based on the habitual honesty and business training of both debtor and creditor, it is legitimate; if on the buyer's fear of legal process, illegitimate." [5] Applying such a standard in practice, however, is extremely difficult if not impossible, since it entails reading the true motives of men.

One thing is clear. In evaluating the standards of behavior of instalment sellers the observer must divest himself of prejudices and half understandings that are certain to confuse his judgments. Thus, as we have seen, an accusation that the instalment business deals predominantly in shoddy merchandise may reflect nothing more than a difference in levels of living. Goods that look shoddy to an individual in comfortable circumstances may be a distinct improvement over what someone in very humble circumstances has had to get along with. Any judgment that condemns a trade because the merchandise it sells is not as good as it would be if the buyers could afford better is obviously unfair. Similarly, one must avoid accepting at face value objections that merely reflect the irritation of well-established merchants against newcomers who are uncomfortably effective in aggressive competition for trade. He must avoid resentment over the fact that instalment selling has served some merchants well as a weapon with which to battle their way out of what may be called the slums of business. Through its use they have converted themselves from small, struggling stores living on the crumbs of a community's trade, to strong, and often large and conspicuous, stores.

The Quantitative Importance of Abuses.—Some scraps of quantitative data are available upon which to base judgments concerning the extensiveness of unethical or at least questionable practices in instalment selling. We have already seen in Chapter 16 that severe collection efforts tend to be concentrated in a few firms. We have seen com-

[5] H. R. Mussey, *The "Fake" Instalment Business,* p. 33.

petent observers reporting that in New York the "bad actors" among instalment merchants represent a very small minority of the city's merchants. Their activities are deplored and to a considerable extent actively combated by the great mass of ethical dealers.

These judgments are supported by figures compiled from the annual statistical reports made by the Legal Aid Society of New York for the years 1933 to 1946 inclusive. Applications for legal aid received by this organization during these years totalled 430,076. Of these, 12,781 or 2.9 per cent had to do with instalment contracts, wage assignments, and garnishments. Naturally, only a portion of wage assignment and garnishment cases spring from instalment buying problems. The average number of applications per year of these three types was 970. Fewer than 1,000 complaints in a city of more than 7,000,000 people is not a very large number. It is also noteworthy that the number has been decreasing for several years, and especially since the legislation sponsored by the New York Conference on Instalment Selling became effective. In 1946 there were only 168 cases, representing ½ of one per cent of the applications to the Society.

Furthermore the mere filing of a complaint does not mean that it is justified. The New York Conference on Instalment Selling made a more detailed analysis of complaints concerning instalment selling handled by the Legal Aid Society in one year—1939. Of the 907 cases handled, they found only 58 that they regarded as reflecting seriously on the ethics of instalment selling. Of these 58 cases, 7 had to do with wage assignments, 8 with unfair repossessions, 17 with misrepresentations of various sorts, 13 with defective merchandise, 3 with overcharges, and 10 with something denominated simply "business practices." The conference also found that more than half of 111 instances of malpractice reported by either the Legal Aid Society or the Better Business Bureau were attributable to only eight instalment sellers. In a city of more than 7,000,000 people, such figures as 58 and 111 and 8 are infinitesimally small.

On the basis of such figures the chairman of the New York Conference, speaking before the National Association of Legal Aid Organizations in 1945, offered the following conclusions concerning the extent of abuses in instalment selling:

> If I were to define the "pernicious evils of instalment selling" I would have to assume that these so-called evils were injurious in the sense that they have the power of destroying or seriously injuring a large number of persons. There is no evidence to support such a conclusion. No one has been able to demonstrate, except by isolated examples, that instalment selling alone has been the cause of any such injury. This does not imply that there are not dishonest instalment sellers or that there are not many ex-

amples of persons who have overpurchased because they could buy on the instalment plan. These same people, however, have also been the ones who have used their cash funds to purchase articles which they likely should not have acquired, or, if they were sellers, they have been just as unscrupulous in their cash sales. Wherever it has been possible to make a survey of such cases it has been demonstrated that percentagewise they are only a small fraction of one per cent of the total aggregate number of instalment transactions.[6]

Loose and Confusing Generalizations About Instalment Ethics.—There is thus ground for believing that much, if not all, of the condemnation of instalment selling made by reformist groups rests upon hasty generalizations. All large cities and many smaller ones have a few unethical instalment sellers, an occasional one of whom contrives to become blatantly conspicuous in his misbehavior. An example may be drawn from Boston. At intervals over a period of about twenty years the Boston Better Business Bureau has published reports identifying an individual and the various firm names under which he has operated in the sale of furniture on instalments and listing the complaints brought against him for virtually every variety of sharp and unscrupulous dealing. At one time or another he has delivered goods different from those bought (including damaged goods, vermin-infested goods, secondhand goods masquerading as new, and goods of lower quality than those displayed in the windows or on sales floors); entered suits designed to harass creditors; added concealed charges to his price; used in his collection letters the names of fictitious attorneys or of well-known attorneys without their knowledge; demanded payments before delivery of goods in violation of contracts; and engaged in all varieties of abusive collection. Although this particular merchant has come before the courts several times, has been convicted at least twice for malpractice, and has lost various civil suits, he was still in business as recently as 1944, and, so far as the present writer knows, is still active.[7]

It is easy to exaggerate the importance of a few conspicuous stores of this kind. The same sort of mistake can be made in looking at the national picture. Thus the practices of one fairly large clothing chain whose stores will be found in many of the middle-sized cities of the country are unquestionably bad. Although it is conspicuous because it is reputed to do a volume of several million dollars, it still represents a very small percentage of the credit clothing business of the country.

Unsupported Statements of "Fact."—Along with loose and confusing generalizations one will find, in the comments of critics, some ex-

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6 The statistics and this quotation are taken from material made available to the present author in the files of the chairman of the New York Conference on Instalment Selling.

7 Boston Better Business Bureau, *Bulletin,* Nov. 20, 1928 and March 13, 1940.

ceedingly fine distinctions that are hard to interpret but that have the net effect of condemning the instalment business without presenting factual evidence in support. Nugent and Henderson, for example, assert that abuses of instalment selling are "exceedingly common." They then go on to say that the merchants who engaged in these abuses "are to instalment selling what the false stock salesman is to the investment banking business" and that "the larger part" of the instalment business is "highly reputable." It then develops that "reputable houses" engage in "questionable" rather than in "abusive" practices.[8] It is difficult to deduce anything very specific from such comments other than that the authors do not like, and therefore want to regulate, the instalment business.

One should also note the recurrent appearance of apocryphal legends. For example there is a story concerning a piece of household equipment sold to a succession of Negro families in the South and repeatedly repossessed to the great profit of the merchant. Authors who apparently expect to be taken seriously present such stories as statements of fact even when they have been exaggerated to the point of absurdity. Sprague quotes an unidentified "business investigator" as having found a piece of furniture that had been sold to Negro families in one Tennessee county and repossessed sixty-seven times.[9] One can only express astonishment at the remarkable durability of any such piece of furniture. The present author has been unable to find a verified account of any transaction in which furniture has gone through the sale-repossession cycle more than twice, although it is not unlikely that rare examples to the contrary could be turned up by systematic investigation.

In all this it should be remembered that merchants are the most obvious targets for consumer dissatisfaction with anything that goes wrong in the purchase or use of merchandise. If prices fall, or goods turn out to be faulty, or if the consumer has difficulty in meeting his obligations, the retailer is the one most likely to be attacked. Even if the consumer himself is at fault, he is likely to take his ill temper out on the individual who sold him the goods.[10]

Factors That Affect Ethical Standards.—It is quite clear that several identifiable factors affect the level of ethics prevailing in any given trade or any given store. For example, stable retail organizations that have acquired a standing in their community must hold to higher standards of behavior than are necessary for fly-by-night organizations that

[8] R. Nugent and L. Henderson, *Instalment Selling and the Consumer: A Brief for Regulation*, p. 5.
[9] J. R. Sprague, *The Romance of Credit*, p. 165.
[10] T. D. Clark, *Pills, Petticoats, and Ploughs*, pp. 12–14 and 66, shows the vulnerability of the retail merchant in the Reconstruction South. Politicians made capital out of hostility to country merchants whose credit policies became the scapegoat for many of the ills into which that section of the country fell after the Civil War.

try to make a quick profit in a community and then move on. Even under the best of circumstances, selling and collecting practices are likely to be worse if outside men do the work, simply because staffs of this sort are at best difficult to control and tend to attract a somewhat lower grade of worker than does more stable employment within the store. Mail-order houses that solicit trade from "sucker lists" obviously will not be as ethical as those that try to build up a repetitive trade with their customers. Big, conspicuous companies have to be more careful in their dealings than small inconspicuous ones. Since even a relatively small store may be conspicuous in its own community, this factor will operate to restrain a large proportion of the country's stores. Big organizations with large numbers of employees also are checked by the fact that they cannot easily train employees to be unscrupulous or even dishonest in their dealings with customers and at the same time to be honest and reliable in their dealings with their employer.

The standards of behavior adopted by instalment sellers also depend upon the kinds of people with whom they are set up to deal. Any store set up to do business with ignorant and emotional consumers will find its operations marked by outbursts of temper, flare-ups, misunderstandings, disagreements, and a heavy reliance upon court procedures in enforcing contracts. Whether this kind of behavior is abusive under such circumstances, and whether, even when it is abusive, it is inevitable if such consumers are to acquire durable goods, cannot be told without very painstaking detailed research in the field.

In communities or districts with large transient populations, stores that engage in abusive retailing (both for cash and for credit) are likely to be more common than in communities with more stable populations. Where transients are numerous, some stores are almost certain to be set up whose objective is to defraud rather than to serve their customers. They live on the principle of selling a customer once and never seeing him again. It should perhaps be added that such stores, if they sell on instalments, also are likely to find their transient customers disappearing in substantial numbers before they complete their payments.

The nature of goods being sold seems to have some influence upon the ethical standards of the trade. The two businesses the present author has found in his interviews to be most often criticized for their practices are jewelry and used automobiles. Both of these trades sell goods whose quality the consumer cannot readily determine. They thus lend themselves to the organization of definitely fraudulent operations. Even here the unethical and abusive sellers are a small minority, but they undoubtedly contribute heavily to the accusations made against the instalment system.

The more questionable the legality of a way of doing business, the more likely it is to be supported by rough and abusive tactics in selling and collecting. Fraudulent operators who use the instalment device as the particular way in which they rob and cheat are the ones most likely to use every device at their disposal to trap the unwary and to extort payments. Such merchants constitute the criminal or near-criminal fringe that can be found in practically all lines of business.

Variations in Ethics from Time to Time.—For the instalment trade as a whole, standards of ethics probably vary with the times. In this particular instalment merchants do not differ from other trades or occupations. Ethical principles in earning one's living are in some sense a luxury that can be indulged in only when living conditions are not too hard. If the people in an economy find themselves in a rigorous struggle merely to survive, one cannot expect too much regard for difficulties imposed upon others. Even in a country at relatively high levels of living a change from good to bad times or the reverse may affect ethical standards significantly. Thus one would expect a substantial improvement in ethical standards between 1932 and 1947, not only in instalment selling but in all lines of business.

Even after allowance is made for cyclical movements, there seems to be little doubt that the ethics in much of the instalment trade have improved substantially over the last forty or fifty years. Certainly one gains this impression from talking to the older men who came through the development of instalment buying during its period of greatest growth. The change must be attributed, however, not so much to any clean-up of instalment buying alone as to a corresponding change in all retailing and advertising and possibly throughout business life. Some of these older men are quite cynical about the change. They view it not as a change of heart but as a change of the circumstances under which profits can be made most easily.[11]

Improvement in communications has almost certainly played a part. Overpricing and selling merchandise of poor quality are more difficult when most consumers are exposed to a wide range of newspaper and radio advertising and to the development of household decoration services in newspapers and magazines. The market is also perfected by the gradual disappearance of foreign groups, particularly newly arrived immigrants, and of illiterates. The influence of homogeneity in language and of literacy, reinforced by the development of the automobile, better newspapers, moving pictures, and the radio, unquestionably has operated to reduce the proportion of the country's consumers

[11] For an example see L. E. Asher and E. Heal, *Send No Money,* pp. 35–38 and 61–62.

who are isolated and narrowly limited as regards the stores from which they can buy. Under such circumstances the opportunity for any individual merchant to engage in at least the more extreme forms of abuse are reduced.

CHAPTER 20

THE SOURCES AND CHANNELS OF DISTRIBUTION OF THE CAPITAL INVESTED IN INSTALMENT SELLING

Instalment selling entails a large investment by business in goods that have passed out of the market. Careful estimates of outstandings give us a reasonably good idea as to how large that investment is. We have made only a beginning, however, toward determining specifically the sources from which this capital comes and the relative importance of the various channels down which it flows to consumers.

Where Instalment Retailers Get Their Capital.—The amount of capital a retailer needs to finance instalment terms can be computed easily under any given combination of down payment percentage, length of the repayment period, and number and frequency of instalments. Chapter 18 presents one standard formula used for the purpose. For the benefit of retailers and others who have little facility in mathematics, these formulas have sometimes been reworked into tables or charts.[1] The precise figures differ somewhat according to the formula but agree on one conclusion. Even with substantial down payments and conservative contract lengths, the additional capital required to finance outstandings is large enough to create a difficult problem both for the retailers and for the industries dependent upon their distributive efforts. Thus a retailer who sells for 25 per cent down, on the average, and who collects in fifteen months, on the average, will need an addition to the capital he would use for a true cash business about half as large as a year's net sales on credit. With no down payment and two-year collected terms, the additional investment would approximate a full year's credit sales.

Retailers differ widely in the ways they draw capital to their business in order to finance credit or for any other purpose. Many accumulate their own capital over the years by persistent saving, or they become large enough to float securities in the investment market. Such firms

[1] See, for example, the table reprinted from *Hardware Age* in C. W. Phelps, *Controlled Installment Credit*, p. 29. Such formulas give meaningful answers, of course, only when used for collected as distinct from written or formal terms.

rely largely upon their own resources and use banks or other outside agencies only to meet seasonal or cyclical peaks or temporary emergencies. When they need financing they may borrow directly from banks; perhaps, if they are large enough, from distant banks by selling commercial paper in the open market. They also may, in effect, borrow from manufacturers or jobbers through long terms, deferred datings, purchases on memorandum or consignment, predated notes, and the like. Any of these alternatives to direct bank loans may really be indirect borrowing from banks. That is, the manufacturers and jobbers may borrow heavily from banks to finance their accounts, and thus become, in a sense, wholesale distributors of credit as well as producers or distributors of goods. Retailers may borrow from finance companies, or the finance companies may come into the picture at jobbing or manufacturing levels. They, in turn, may draw heavily upon bank funds.

There has been some tendency in the past for finance companies to be used most freely by retailers in the sale of automobiles, and least freely by retailers in the sale of furniture and jewelry. Major household appliances, however, and particularly mechanical refrigerators, have tended to conform to the pattern of automobile financing. Since many furniture and jewelry stores sell these items, they have shown some tendency toward a more liberal use of finance companies. Apparently manufacturers have exerted some pressure, since many retailers interviewed by the present writer said they found the margins set by the manufacturers in establishing resale prices too small to permit their normal policy of self-financing. They also said, however, that the terms of three to five years, encouraged by the government in the 1930's, were dangerous and burdensome enough to warrant their passing the risk on to someone else even if they had no pressing need for new capital. A final influence was the belief that major appliances produce fewer "add-ons" than furniture, jewelry, and clothing, so that the merchant had less reason than normal to bring customers into the store to pay instalments.

Basic Sources of Capital.—Despite these complexities, retailers must draw the capital they require from two basic sources. One is the savings of individuals. These may be either the savings individuals make for themselves or the so-called involuntary savings made for them when business enterprises in which they have ownership interests retain parts of their earnings for investment. The other source is money created by the banking system. An investigation into the origin and channels of the capital tied up in instalment-sale receivables is thus essentially a study of, first, how this capital is divided between the two basic sources,

and, second, what succession of agencies is used to pass the credit down from its original source to the consumers.

Instalment selling as a system of financing consumer purchases of durables grew to its present stature with very little direct participation by commercial banks either as creators or as distributors of funds. Indirectly, however, bank credit has always been important, although it has often flowed through very complicated channels to the ultimate consumer. Since the appearance of automobiles, sales finance companies have been particularly important parts of the channels. These are specialized agencies organized to extend instalment credit to consumers through retailers. They buy consumer instalment receivables at a discount and also finance retailers at wholesale under so-called "floor plans" that make it possible for merchants to pay manufacturers on virtually cash terms. They have stood in many different relations to the banks. Some have been subsidiaries of the banks themselves. Others have been subsidiaries of manufacturers or independent companies set up by private investors or enterprises closely associated with retail or wholesale merchants. Occasionally one has owned some of the merchants whose sales it finances.

In the years just before and after World War II, the most conspicuous development in instalment financing has been the aggressive entry of the banks into competition for the direct financing of consumers without the intervention of retailers or any other intermediaries, and for the direct financing of retailers without the intervention of finance companies. Perhaps the most important current problem to be solved in the financing of instalment selling is this one: Where under present conditions can bank funds best be fed into the instalment structure? The answer to be given under the stress of severe competition in coming years will have a profound influence upon the organization of instalment buying.

The Relative Importance of Financing Agencies.—From the available data one can make nothing more than rough guesses as to the proportions in which the instalment business draws the capital it needs from its two basic sources, as to how much flows in at each possible point of entry, and as to how much flows down each of the many possible channels open to it on its way to the consumer. Table 53 summarizes the most exhaustive attempt thus far made to measure the relative importance of the channels through which this capital flows. For each of four years—1929, 1933, 1936, and 1941 [2]—the table shows consumer instalment credit outstanding at the end of the year (both under cash loans and under sale transactions) as 100 per cent. This

[2] The present author has not been able to bring this table more closely down to date.

TABLE 53

PERCENTAGE DISTRIBUTION OF TOTAL ESTIMATED CONSUMER INSTALMENT OUTSTANDINGS, YEAR-END 1929, 1933, 1936, 1941 BY AGENCY[a]

Agency	1929	1933	1936	1941
Retail Instalment Credit:	*Per Cent*	*Per Cent*	*Per Cent*	*Per Cent*
Sales finance companies	b	b	b	31.1
Commercial banks	b	b	b	10.7
Insured industrial banks	b	b	b	0.7
Other industrial banking companies	b	b	b	20.0[c]
Retailers and others	b	b	b	
Total	78.3	69.3	69.4	62.5
FHA Title I Loans[d]:				
Sales finance companies	–	–	1.5	1.0
Commercial banks	–	–	4.7	3.5
Insured industrial banks	–	–	0.4	0.3
Other industrial banking companies	–	–		0.1
Credit unions and others	–	–	0.1	
Total	–	–	6.7	4.9
Cash Instalment Loans[e]:				
Personal finance companies[f]	9.6	16.6	9.9	10.2
Commercial banks	1.3	1.8	3.7	12.3
Credit unions	1.0	1.7	1.9	3.4
Insured industrial banks	6.8	7.5	5.4	1.6
Other industrial banking companies				3.4
Other lenders	3.0	3.1	3.0	1.7
Total	21.7	30.7	23.9	32.6
Total outstandings	100.0	100.0	100.0	100.0

[a] Based on data in the *Survey of Current Business*, November, 1942, pp. 9–25. For 1941 based, in addition, on data from Federal Deposit Insurance Corporation and Federal Housing Administration. The absolute amounts outstanding were: 1929, $3,211,300,000; 1933, $1,618,900,000; 1936, $3,514,200,000; and 1941, $5,997,700,000.

[b] Breakdown not available.

[c] Holdings of other industrial banking companies are a negligible percentage.

[d] Notes under $2,000 insured by the Federal Housing Administration. Breakdowns estimated from data obtained from the F.H.A. for May 1st call dates.

[e] Includes direct instalment loans for financing retail purchases, repair, and modernization loans not insured by the F.H.A., and loans made by unregulated lenders.

[f] Inflated by "interest due and to become due" by the formula $oi\,\frac{(d+2)}{3}$ with o representing outstandings, i the monthly interest rate, and d the duration of the loan. The duration was estimated at 15 months and the monthly interest rate in 1929 at 3.0 per cent, in 1933 at 2.9 per cent, in 1936 at 2.8 per cent, and in 1941 at 2.5 per cent.

Source: E. A. Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929–41*, New York, National Bureau of Economic Research, 1944, p. 33.

is then distributed among the various types of agency providing the funds. Unfortunately neither the ultimate sources of the funds nor the channels down which the funds had moved to the points of measurement are shown.

Dauer estimates that retail instalment credit other than Federal Housing Administration loans dropped from 78.3 to 62.5 per cent of the consumer instalment credit outstanding between 1929 and 1941. If the Housing Administration loans are counted as instalment sale credit, this type of credit dropped from 78.3 to 67.4 per cent of the total. Even after allowance is made for the presence of some indirect financing of instalment purchases through cash loans, it seems evident that cash lending grew more rapidly over this period than did instalment buying.

More important for present purposes, however, is the division of the outstandings among the various agencies. From Tabe 53 it can be computed that sales finance companies provided 32.1 per cent of the funds going into consumer instalment credit in 1941; commercial banks 26.5 per cent; retailers 20 per cent;[3] personal finance companies 10.2 per cent; industrial banks 5.0 per cent; credit unions 4.5 per cent; and other lenders 1.7 per cent.

Taking retail instalment credit and the Federal Housing Administration's Title I loans as 100 per cent, one can compute that sales finance companies provided 47.7 per cent of the total; retailers 29.6 per cent; commercial banks 21.1 per cent; and all others 1.6 per cent. It is thus evident that in the more or less direct financing of retail instalment purchases only three financing agencies were important. Of these, sales finance companies were by a considerable margin the most important. Retailers who retain their instalment paper rank second, and commercial banks came third.

Other evidence indicates that the relative importance of these agencies varied widely from one trade to another. One estimate, for example, is that in 1937 sales finance companies extended about 51 per cent of the instalment credit granted by retail dealers, the rest being financed by retailers themselves or through other agencies. In automobiles, the proportion financed through sales finance companies represented 75 per cent of the total, whereas in other goods the proportion financed through the sales finance companies was not more than 20 per cent.[4]

The Indirect Importance of Bank Loans.—If the analysis is carried back one more step, the ranking of the three leading agencies changes, and commercial banks take first place. As we shall see shortly, the finance companies draw a large proportion of their capital from bank loans. Retailers also make a substantial use of bank facilities to supplement their own capital and that available to them from other sources.

[3] The "others" included by Dauer with retailers probably are of negligible importance.
[4] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 42, 43.

The arrangements between banks and retailers take several forms. The banks may act, in effect, as finance companies, taking over the instalment paper of retailers and themselves doing the credit investigation and collection. On the other hand they may buy blocks of receivables from retailers who handle all the routines of credit investigation and collection. Yet again, the banks may simply lend to retailers on their general credit.

Further light is thrown by Chapman on the sources of the capital invested in instalment sales credit, especially through finance companies, during the prewar decade.[5] The 48 sales finance companies covered in his figures had aggregate assets of more than 1.8 billion dollars at the end of 1937. More than half (53.8 per cent) of these assets had been borrowed (chiefly from banks) on short terms. Plummer and Young add to Chapman's information an estimate that over the period 1924–1939 an average of about one third of the assets of sales finance companies represented equity funds, the rest being borrowed. Although long-term loans were widely used, the companies relied chiefly upon short-term debt because they must expand and contract quickly to meet fluctuations in the production and sale of consumer durables, especially automobiles. Companies operating on a national or regional scale had an easier access to the long-term security markets than local companies, but still relied largely on bank loans to supplement their basic capital.[6]

Finance Companies and Dealers as Credit Middlemen.—To a considerable extent, then, the sales finance company and the instalment retailer are middlemen coming between the bank and the consumer. The bank may be said to produce credit and to sell its product at wholesale. The finance company may be either a retailer who sells the product of the banks directly to consumers or a wholesaler selling it to the retail dealers who themselves pass it on to consumers. The dealer thus becomes a retailer of credit as well as a retailer of goods. When a bank lends directly to the retailer it absorbs the wholesale function. If it lends directly to consumers, it absorbs both the wholesale and the retail functions.

Banks apparently are attracted to direct financing by the difference between the rates at which they lend in the open money market and the rates finance companies and retailers charge instalment buyers. It remains to be seen whether much of the difference can be taken over by the banks as profit. To some extent the banks here have adopted merely a variant of the opinion held by many manufacturers that distributors' margins are too large. If there really is an excessive profit or an ex-

[5] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 194.
[6] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 4, 5.

cessive cost in the indirect distribution of credit, the aggressive competition now present in instalment financing will probably squeeze most of it out.

We have already seen in Chapters 11 and 18 that credit service charges have tended downward over the last 15 or 20 years. Some commentators attribute this movement to the fact that Government agencies in the middle 1930's set their charges well below the going market rate. The best informed opinion, however, holds that these agencies merely strengthened a movement caused chiefly by other forces. The entry of new companies into sales financing and personal lending, a sharp increase in the number of credit unions, the development of consumer financing by public utilities, the experiments of commercial banks in direct consumer financing, and the elaboration of plans by manufacturers of appliances for financing the distribution of their products on instalments—all these contributed to the end result. The importance of the government agencies in the pattern should not be exaggerated.

Can banks distribute their credit directly to the consumer or the retailer as economically as through intermediaries? Obviously the bank that wants consumers to borrow from it and pay "cash" to the retailers faces important difficulties. For one thing, it must compete with its own customers, since it presumably will continue to lend to retailers and finance companies. Here it faces a variant of another familiar problem in marketing—the one that arises when a manufacturer who sells to wholesalers undertakes to sell to their retail customers. Banks also are less accessible to consumers, since most of them have only one or two offices, whereas the retailers who sell on instalments are numerous and widely scattered. Since the unit of credit when compared with commercial loans is small for original sales and still smaller for "add-ons," banks cannot profitably spend much to be nearer to consumers, and consumers will have little incentive to travel far to the banks. Still further, the bank that undertakes to market its credit directly to consumers and retailers sacrifices any additional security the finance company provides through its ability to diversify its risks geographically and by trades and through its own equity capital. Finally it is necessary to remember that banks are organized and equipped to handle wholesale financing; when they go into retail financing they must set up a different kind of organization that uses different procedures of credit control and collection.

Loans by Banks to Retailers and Consumers.—Some additional information concerning direct participation in instalment-sale financing by banks before the war is summarized in Table 54. Of 263 banks that replied to a questionnaire, 232 (or 88.2 per cent) bought automo-

bile paper, but only 20 (or 7.6 per cent) bought soft-goods paper. Other commodities fell between these two extremes. Consumers represented the principal source of automobile paper (when measured by number of banks buying rather than by number of contracts or dollar volume), but retailers represented the principal source for all other types of paper. The relatively small part played by purchases from manufacturers and finance companies is striking. Banks have long been a major source of funds for finance companies, but they have used loans on general credit and various forms of bulk or package hypothecation rather than outright purchase of the consumer paper.

TABLE 54

NUMBER OF REPORTING BANKS OBTAINING SALES FINANCE PAPER FROM VARIOUS SOURCES, 1938, BY TYPE OF COMMODITY FINANCED

Type of Commodity	Source of Paper					Number of Banks	
	Purchasers	Dealers	Manufacturers	Finance Companies	Others	Obtaining Paper	Not Obtaining Paper
Automobiles	209	178	12	10	2	232	31
Household appliances	62	152	20	5	3	169	94
House-heating equipment	52	81	7	3	2	103	160
Furniture	26	59	3	2	1	77	186
Soft goods	8	12	4	–	1	20	243
Miscellaneous	18	27	3	1	1	35	228

Source: J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 87. Based on questionnaire returns from 263 banks.

Table 55 gives some interesting supplementary information. Out of 164 banks from whom Chapman received information concerning their purchases of instalment paper in 1938, 149 reported buying automobile paper. Of this automobile paper, 52.4 per cent represented direct financing of automobile buyers and 46.4 per cent the purchase of paper from dealers. The number of banks financing household appliances was much smaller than the number financing automobile purchases. Nearly all of this paper came from purchasers or dealers, but the proportion coming directly from the purchasers was much larger than for automobiles. For all other types of goods only a small number of banks bought instalment paper, the aggregate amounts purchased were relatively small, and relatively little of it came from the consumers themselves. Most of it came from dealers, although an important percentage of the paper covering soft goods, and an appreciable percentage

TABLE 55

PERCENTAGE DISTRIBUTION OF SALES FINANCE PAPER OBTAINED FROM VARIOUS SOURCES BY REPORTING BANKS, 1938, BY TYPE OF COMMODITY FINANCED

Type of Commodity	Source of Paper					Total Amount (Thousands)	Number of Banks Reporting
	Purchasers	Dealers	Manufacturers	Others	Total		
Automobiles......	52.4	46.4	–	1.2	100.0	$79,732	149
Household appliances...........	65.1	28.2	0.7	5.0	100.0	57,531	86
House-heating equipment......	3.2	84.0	11.8	1.0	100.0	6,764	52
Furniture.........	31.0	60.0	5.0	4.0	100.0	420	29
Soft goods........	27.7	38.4	33.9	–	100.0	112	6
Miscellaneous.....	37.1	60.7	2.2	–	100.0	502	14
All commodities...	54.9	41.5	0.9	2.7	100.0	$145,061	164

Source: J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 86. Based on questionnaire returns from 164 banks.

of the paper covering house-heating equipment, came from manufacturers.

Some part of the cash lending by banks to consumers also represents instalment buying. Before the war Hardy maintained that too few of the loans made by personal loan departments of commercial banks went to small borrowers for them to be considered remedial loans. The average loan was substantially larger than that of the personal finance companies, and many individual loans ran well up into the thousands of dollars.[7] This situation presumably has changed somewhat since the war. Even before the war, directly or indirectly, some of these loans were unquestionably instalment purchases. Chapman also reports that personal loans by banks were available primarily to borrowers who have relatively high incomes. Although 35 per cent of this country's families had annual incomes of less than $1,000 in the middle 1930's, he found that the personal loan departments of banks drew only 5 per cent of their customers from this group.[8]

Loans by Banks to Other Financing Agencies.—Personal finance companies also rely heavily (although to a less extent than sales finance companies) upon commercial banks. Chapman found that 29.3 per cent of the funds of a group of these companies surveyed in 1937 represented short-term debts.[9] In their early days personal finance com-

[7] C. O. Hardy, *Consumer Credit and Its Uses*, pp. 50, 51.
[8] J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, p. 6.
[9] J. M. Chapman, *op. cit.*, p. 194.

panies were financed out of the personal savings of individuals. Later they built up their funds by the reinvestment of earnings. Then they found it possible to float stocks and bonds in the general money market. Eventually they obtained access to the short-term money market when banks came to appreciate the social need for their services and the financial soundness of their business.[10]

The larger personal finance companies, although they do most of their business in retailing funds directly to consumers, also engage to some extent in wholesaling funds to retailers through purchases of instalment paper. In conversations with the author, officials of some of these companies indicated a belief that they are not likely to make very heavy inroads into the financing of instalment buying directly or indirectly. The basic reason given for this opinion was that since personal loans are commonly made with no substantial security other than the borrower's character and income, these lenders must organize to use careful credit checks and must reject a very substantial proportion of their applicants. The resultant costs handicap them in their competition for the instalment sale business.

Among industrial banks and credit unions, the principal source of funds is the savings of individuals. In industrial banks these commonly take the form of deposits. In credit unions they are more likely to be contributions to owner's equity account by the members. These agencies are considerably less important in the financing of instalment buying than the others described, and so have little influence upon the aggregate situation. Furthermore, in recent years many industrial banks have converted themselves into commercial banks.

Even the Government agencies active in the middle 1930's were really channels down which bank funds could flow into the hands of instalment buyers. The Electric Home and Farm Authority borrowed from banks in order to pay cash to the dealer. At the end of the fiscal year 1937–1938, its borrowing from banks represented 84 per cent of its capital assets. The Federal Housing Administration insured the normal business agencies against loss. These included commercial banks, industrial banks, finance companies, building and loan associations, savings banks, and credit unions.[11]

The Part Played by Banks in Financing Instalment Credit.—Although the foregoing discussion makes it clear that banks have played a leading part in financing the instalment business, at least since the invention of the finance company, precise quantitative measures still elude the investigator. Nugent, carefully considering the evidence,

[10] R. A. Young, *Personal Finance Companies and Their Credit Practices,* pp. 3, 4 and 38–43.

[11] J. D. Coppock, *Government Agencies of Consumer Instalment Credit,* pp. 13 and 27–28.

came to the conclusion that in 1937 commercial banks directly or indirectly contributed at least 40 per cent of the credit of all types extended to consumers. That was a year characterized by large sales on instalments at the peak of a business cycle.[12] Insofar as instalment-sale credit is specifically concerned, Nugent's figure is almost certainly much too small, especially in a year of large automobile sales. As we have seen, banks give credit to consumers directly by loans and indirectly through a confusingly varied group of channels. If all the funds flowing to consumers through all these channels could be traced accurately back to their source, there is little reason to doubt that the commercial banks' contribution in the late 1930's would turn out to have been at least half of the total and probably even more.

The available evidence indicates that since the war the share of the banks in the financing of consumer instalment purchases has increased rapidly. Estimates made for the Federal Reserve Board leave no doubt as to what has happened to direct consumer instalment financing by banks—"direct," that is, in the sense of either cash loans to consumers or the purchase of instalment paper from dealers. In 1929, these estimates indicate, commercial and industrial banks together held less than \$200 million of consumer instalment paper. In September, 1941, just before the war, approximately 12,750 banks held some instalment paper. Their holdings aggregated \$1.9 billion, or approximately 30 per cent of outstandings. As consumer instalment credit recovered from its wartime lows, banks moved ahead more rapidly than other lenders. By mid-1945 their holdings represented approximately 35 per cent of total outstandings. At the close of 1946 their holdings had risen to \$1.7 billion, or approximately 43 per cent of the total.[13] When attention is directed specifically to instalment-sale credit, as distinct from the aggregates for all types of consumer credit covered in these estimates, and when allowance is made for indirect financing through loans that do not involve purchase of consumer paper, there seems to be no reason to question the conclusion that banks now finance more than half of this country's instalment sales. It seems highly probable, too, that as the production and distribution of consumer durables (and especially automobiles) rise to their postwar peak, the share of the banks in the business will become even larger.

Manufacturer Sponsored Sales Finance Companies.—In addition to the financing agencies proper and to retailers, manufacturers, especially of automobiles, have exerted a major influence through their financial policies. The system used by the automobile companies to finance their

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[12] R. Nugent, *Consumer Credit and Economic Stability*, p. 141.
[13] F. Baird, "Commercial Bank Activity in Consumer Instalment Financing," 33 *Federal Reserve Bulletin*, p. 264 (March, 1947).

distribution is one of the most remarkable achievements in financial history. Although they have sold enormous quantities of expensive goods involving investments by distributors and consumers running into the billions of dollars, these manufacturers have conducted their own sales virtually on a cash basis. Their traditional terms to dealers have been cash against shipping documents. From the time the car reached the dealer, specialized agencies carried the financial burden with the substantial aid of bank funds.

The principal device through which automobile manufacturers built this system was the factory-sponsored finance company, which tapped the resources both of the investor's market and of the short-term money market. At their peak the companies sponsored by the "Big Three" dominated their market. In 1937, out of the retail credit extended by 424 sales finance companies, these three extended 67.66 per cent. They also extended 78.70 per cent of the wholesale credit granted to dealers and distributors on their stocks of cars.[14] This overwhelming predominance stimulated the antitrust proceedings against these companies described in Chapter 8 above.

The direct contributions of capital to these companies by the manufacturers from their own funds were comparatively small. The companies were primarily devices by which the industry could tap the savings of investors for the basic capital required to finance distribution of its products through sales of stocks and bonds, and draw upon bank funds for the supplementary capital required to meet seasonal and cyclical peaks. A similar pattern was developed by the independent companies financing automobile sales and by companies set up either by manufacturers or independently to finance the distribution of durables other than automobiles.

The Arrangements Between Retailers and Finance Companies.— The systems by which finance companies divide the responsibility for losses with the dealers from whom they buy paper fall into three general types: (1) paper discounted with recourse, under which the dealer is responsible for losses suffered; (2) paper bought without recourse, under which the finance company makes all collections and takes all the risks; (3) paper bought with an agreement by the dealer to repurchase goods the finance company repossesses, any other losses to be borne by the finance company. In practice, individual contracts do not always fall clearly into any one of these categories. Each contract is separately negotiated, and there is room for great variation in the precise division of responsibilities between dealer and finance company.

14 W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 264.

Various sorts of guarantees by third parties, such as manufacturers and jobbers, may also complicate the arrangements.

Under the recourse plan the companies set up reserves to cover possible losses. Ordinarily, in the course of time, they find it possible to return part of the reserve to the dealer. This has led to the much criticized "kickback" system. In the beginning finance companies apparently made no provision to return the reserves to dealers. Beginning in the 1920's, however, they found these reserves substantially larger than the losses sustained. To meet the situation they did not reduce their charges directly but returned the excess reserves to the dealers. Apparently they believed this way of handling the matter more advantageous competitively because, whereas most consumers paid little attention to differences in carrying charges, dealers were very much interested in the reserves. In fact dealers liked the system so well that nonrecourse companies felt themselves forced to meet the reserve plan by establishing rates that would permit them to pay dealers bonuses or rebates even in the absence of reserves.

Bonuses, reserves, rebates, and the like are sometimes criticized because they fail to give the consumer the benefit of reduced costs in reduced rates. Curiously enough, the same authors who make this criticism sometimes also comment that competition often forces the dealers to pass at least part of the rebate back to the consumers, especially in the form of increased trade-in values. A good many authors have pointed out that in practice the net profit of the dealer is likely to be less than the amount of the rebate or bonus he receives from the finance company. Insofar as the rebates are passed to consumers in the trade-ins, they would seem to discriminate in favor of the cash buyer and against the credit buyer; but here again a complete analysis of the complicated ways in which the retailer adjusts his price for his "bundle" of goods and services might show the effect to be apparent rather than real.[15]

Finance companies usually finance the instalment business on the so-called notification plan. This informs the consumer that his contract has been taken over and that he is expected to pay the finance company rather than the dealer. This plan has been used generally in financing automobiles and other large-unit transactions. For other items, companies are more likely to use the nonnotification plan. Under this plan the dealer puts up his receivables as security, but the customer is not notified and the retailer does all the collecting. This plan is likely to be used where the individual unpaid balances and instalments are too small for the finance company to collect them economically or profitably. It

[15] T. H. Smith, *The Marketing of Used Automobiles,* discusses these points to some extent on pp. 208–212.

will also be preferred where the dealer needs financing, but wants to get as much store traffic as possible out of payments made to him by his customers. This factor is not particularly important in the automobile trade, but is important for many other goods, as we have seen.

The finance company really sells different bundles of services under the two plans. The notification plan includes, over and above a simple loan of money, a collection service, a credit investigation, and possibly some insurance. The nonnotification plan is a loan of money and little else. One reason why many finance companies prefer the notification plan is that it increases their volume of business by increasing the range of services they sell. Nonnotification loans are acceptable only for loans large enough to make the deal profitable even with a narrow range of service. The nonnotification plan also provides a way to strengthen the credit of a retailer whose situation does not warrant unsecured or general credit loans.

Like the finance companies, the banks have in the past done relatively little financing of retail paper on the notification basis outside of sales of automobiles and major appliances. The unit amounts are too small for profitable handling by banks as well as by finance companies. Like the finance companies, the banks accordingly tend to "retail" credit in sales of the larger units and to "wholesale" the rest.

It is self-evident that retailers who regularly sell their paper to finance companies or banks on the notification basis are virtually cash dealers. Insofar as the credit operation is concerned, they do little more than serve as agents who fill out papers. Sometimes they do not think of themselves as instalment or credit merchants at all. The prime example of this attitude is the automobile dealer, who commonly takes instalment credit as the responsibility of someone other than himself.

Differences Among Trades in Financing Plans.—Only a few fragments of information are available as to the extent to which retailers draw upon the various financial agencies to support their instalment sales. Data concerning the extent to which stores in thirteen trades sold their instalment paper in 1942 and 1943 were assembled by the Federal Reserve Board in 1944.[16] Automobile dealers and dealers in lumber and building materials sold slightly more than 50 per cent of their instalment paper in 1942 and 1943. Heating and plumbing equipment dealers sold approximately one third of their paper. Hardware stores sold 17.6 per cent in 1942, but only 5.9 per cent in 1943; household appliance stores, 16.0 per cent in 1942 and 3.4 per cent in 1943. Coal, fuel oil, and wood dealers sold 9.3 and 14.7 per cent of their paper in the two years. No other trade sold any considerable amount of its

16 30 *Federal Reserve Bulletin*, p. 650 (July, 1944).

instalment paper. Department, furniture, women's specialty, and tire and accessory stores sold 3 per cent or less. Men's clothing, family apparel, and jewelry stores sold none. Although 1942 and 1943 were not normal years for the instalment business, and though the proportion of paper sold would probably rise in years of heavier instalment sales, these figures probably indicate well enough the relative importance of financing through sales of paper in the various trades.

Unfortunately the figures throw no light on how the paper not sold is financed. Another set of figures from the same source, however, indicates that bank loans represented a small but appreciable proportion of the capital invested in receivables in 1942 and 1943.[17] At the end of 1942 notes payable to banks by credit-granting retailers equalled 25 per cent of their accounts receivable. At the end of 1943 this figure had fallen to 21 per cent. In contrast "other current liabilities," which presumably include accounts due to manufacturers and wholesalers, exceeded the accounts receivable in each year. Whether this is an abnormal situation, it is impossible to say. Outstandings fell heavily during the war, but there are no data to show whether they fell more or less than accounts due to suppliers.

The Development of "Direct" Financing.—Specialized agencies of instalment finance grew up, at least in part, because the banks themselves doubted the soundness of consumer credit, looked upon themselves as wholesalers of funds, and did not have the exemption from narrowly restrictive usury statutes given other agencies by judicial distinctions between sales on credit and loans of money. It is often said that for half a century after the Civil War commercial banks simply failed to meet the needs of consumers for financing that accompanied and developed along with the rapid urbanization of the country. Instalment selling in particular apparently was financed largely by the manufacturers. This was direct financing of consumers when the goods in question were sold through agents. It was indirect financing when dealers took title to the goods and were themselves financed by long-term credits designed, first, to cover their inventories, and, next, to finance their receivables. Manufacturers, when the burden became very heavy, turned to the finance companies, either organizing their own or relying upon organizations that developed out of enterprises set up to factor open credit accounts receivable under open credits.

It should be remembered that banks finance a trade indirectly in many ways. When allowance is made for this fact, it becomes necessary to modify somewhat the conclusion as to participation by banks in consumer financing during this period. Manufacturers relied heavily upon

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17 *Ibid.*, p. 652.

bank credit. Dealers used local bank credit freely to supplement or replace the financing they could obtain from other sources. By 1920 banks also were investing substantial amounts in instalment receivables through finance companies as well as through these older channels.

The principal change in bank practice during the last twenty years has been to develop shorter channels by lending to consumers directly or through only one intermediary—the retailer. A survey made by the American Bankers Association early in 1946 indicates that the trend will continue. Out of approximately 15,000 banks in the country, 12,000 reported themselves as prepared to make fairly direct consumer credit loans in one or more forms. The banks varied considerably in the kinds of consumer credit they planned to offer: 10,500 planned to make personal loans; 8,000 to finance time sales of goods directly or through dealers; 9,400 to make automobile loans directly or through dealers; 5,100 to make Federal Housing Administration Title I loans for house repairs; and 7,000 to make modernization loans on their own plans to small businessmen and home owners directly and through dealers.[18] The numbers are not particularly important, since most banks bought some consumer paper before the war. The differences lie more in the variety of the plans being used and the aggressiveness of the banks in their promotion of the business.

Within the last few years banks have developed increasingly flexible plans for financing instalment receivables that involve a minimum of interference with the store's operations. An arrangement made by two banks in 1947 with a large metropolitan retailer illustrates the possibilities. The banks have agreed to provide a revolving credit up to a maximum of 75 per cent of all outstandings except those on which the store has not received a payment within ninety days. The ledgers and other records remain with the store, the interest of the banks being noted on the containers but not on the individual cards. Payments on account by customers (but not down payments or proceeds of cash sales) go into a special collateral account against which the banks draw for repayment of their loans. Interest is computed and charged monthly on daily balances. The store can draw on its credit at any time it needs funds.

Reasons for the Bank's Drive Toward "Direct" Financing.—The reasons why banks are driving for more direct financing (other than the desire for some of the "middleman's" profit already discussed) apparently are: (1) the good payment record achieved on instalment contracts during the depression; (2) a better appreciation of the economic and social utility of consumer financing; (3) a substantial decline prior to the war in the net income of banks from other sources; (4) lib-

[18] *The New York Times*, February 22, 1946, p. 32.

eralization in some states of the regulations that govern banks so as to permit them to make small loans at profitable rates; (5) a feeling by commercial banks that too much of the business of financing the country's economy has drifted out of their hands into those of specialized agencies during the last two or three decades.

As the banks try to push more directly into the instalment business, a very important question is whether they will continue to try to take only the cream of the paper, which they are accused of having done in the past, or will be prepared to take paper as it comes. It is doubtful whether the banks can take very much business away from the sales finance companies unless they will accept all the paper a reasonably careful dealer offers. They probably will have to provide adequate floor planning as well, since retailers will normally turn their retail financing over to the same agency that gives them their wholesale financing. Smith reports that it has long been "standard practice" in the automobile business for finance companies to floor-plan the dealers from whom they obtain retail paper with loans amounting to 90 per cent or even 100 per cent of the wholesale value of the cars concerned and at rates too low to cover costs. They have expected to make up the difference and achieve a profit in their retail financing. Some observers also believe that the banks will have to develop a greater willingness than they have shown in the past to accept nonrecourse paper and paper without endorsers or cosigners.

The Strategic Position of the Retailer.—Until recently the strongest competition has been for the business of the dealer or retailer. Consumers show much less interest in the carrying charge than in the goods themselves, the over-all price, the down payment, and the size of the periodic instalment. Dealers, in contrast, have as keen an interest in the finance charge as in any other device through which they receive price reductions or increases in their incomes.

This is one of the reasons why competition for the dealer's consumer financing has often taken the form of extremely liberal terms on wholesale financing. Many dealers seem to feel that a profit which comes to them indirectly in the form of wholesale financing at less than cost, a rebate, or a bonus is more desirable than a direct profit. Why they feel this way no one really knows. Whatever the reason, insofar as the retailers prefer to do business this way, the financing agencies are under competitive pressure to accede.

In the competition among financing agencies, the retailer occupies a strategic position because he probably has more influence than anyone else, even than the consumer himself, in directing sales paper to various sources of and channels for capital. The consumer can make his own

financing arrangements, but in practice he ordinarily leaves this to the retailer. The retailer may, of course, be restricted by his circumstances to a limited range of choices. In the automobile business, for example, some dealerships have been taken over openly or secretly by finance companies. This usually has been done to protect the assets of the finance company where the dealer has run into difficulties. Whatever its cause, its influence upon financing arrangements is self-evident. Similarly, the pressure from manufacturers that stimulated the antitrust proceedings against the "Big Three" automobile companies greatly restricted the independence of the dealers. Within the limits of his independence, however, (and for most retailers these limits are wide) he determines the place from which the financing is drawn by deciding whether to discount his contracts, and, if so, with which particular bank, finance company, or other agency.

If the dealer wants to handle the financing himself, he obviously offers formidable competition to all other agencies. The retailer already has attracted the customer to one place of business to buy the goods; they must attract him to another office to complete a deal he can close where he is. Unless profits come down substantially, the incentive for the dealer to do his own financing will be strong. The high unit-value of some goods, particularly automobiles, and the consequent large investment required for instalment sales, have tended to check self-financing by dealers in these fields. Some unpublished studies the author has seen indicate, however, that the percentage even of automobile dealers who hold their own paper has been increasing, especially on the Pacific Coast. Some of the larger dealers have set up finance companies; others finance their contracts along with their other operations. Either way they presumably use bank funds to some extent, but not through intermediaries or by selling their paper.

The Significance of the Credit Middleman.—It must be emphasized that in adopting devices of direct financing, banks are not really making their first entry into the field. They are rather choosing new points along the channel at which to inject the funds they have long provided indirectly. When they do so they may also succeed in enlarging the proportion of the total capital they provide.

Commercial banks already finance a great deal more of the consumer credit business of all kinds than is apparent on the surface. Retailers, wholesalers, importers, manufacturers, sales finance companies, personal finance companies, and, to a smaller extent, industrial banks, all borrow from them. Their channel problem is in considerable measure (although not entirely) a question of the points in the progress of goods through a succession of owners on their way from production to con-

sumption at which bank funds can be inserted most economically. More specifically it is a question of determining whether banks can work more effectively than they have from the point of view of the trades and consumers financed, and more profitably from their own point of view, by dispensing with the services of intermediaries and doing a more direct job of marketing their wares. Only time will give the answer to the question.

CHAPTER 21

THE MANAGEMENT OF INSTALMENT BUYING BY BUYERS

Difficulties of Measuring Consumer Behavior.—Although every instalment transaction is both a purchase and a sale, relatively little study has been made of the practices and procedures consumers use in their buying. Consumers have no wealth of manuals and no opportunities to exchange and collect information as to how buying is done and how it can be improved, comparable with those available to sellers. The sheer weight of numbers and the absence of clear-cut motives make the problem much more difficult. No individual has sums of money at stake large enough to warrant the expenditure of substantial amounts to analyze and improve the procedures used. Studies made of how consumers manage instalment buying have thus been much less thorough and systematic than those made of how businessmen manage instalment selling. Much of the investigation has been done as a by-product of other activities, notably the efforts of social agencies to aid and rehabilitate families that have got into difficulties over debt, and general-purpose surveys of consumer income and expenditure.

Anyone who undertakes to find out why consumers do what they do with instalment buying will be handicapped still further by severe limitations upon what we know of human psychology in general. One cannot easily determine the motivating forces that lie behind any aspect of human behavior. Many of them are not known clearly to consumers themselves, so they cannot be found by direct questioning. Even if psychologists agreed among themselves as to how one goes about finding out what makes people behave as they do, it would still be difficult to set up experiments and surveys that would yield trustworthy conclusions as to how instalment buyers decide whether to buy something; whether, having determined on a purchase, to pay cash from accumulated resources, to postpone possession while accumulating cash, or to take immediate possession and pay something extra for credit; whether, having bought on credit, to pay up promptly, delay the payments, or try to evade them; and so on.

Why Consumers Buy on Instalments.—From what we know, it seems very probable that a (if not *the*) primary force moving consumers to buy on instalments is a determination to share as promptly as possible in the good things this age of factory production has to offer. A generation that takes a plentiful stock of durables for granted may find it difficult to appreciate how much consumer durables have done to liberate the great mass of individuals from physical, intellectual, and social isolation and from sheer drudgery in maintaining and operating a home. Those who emphasize the unquestionable fact that some people get into trouble over instalment buying do not always take a careful look at the frustration, maladjustment, and bitterness the refusal of instalment credit might create. It cannot be taken for granted that consumers would accept cheerfully, or even philosophically, a feeling of being cut off from the full enjoyment of an exciting age. Businessmen have truly found in instalment buying a powerful tool of sales promotion, but they have had a powerful force with which to work in what one writer has called "the determination of the masses to enjoy the material blessings of life." [1]

Because life is short and uncertain and the material comfort of the great mass of the people has been meager despite our vaunted high level of living, the pressure for immediate possession of durables is heavy. People not only want these goods, but they want them now. Even if the average consumer had no difficulty in disciplining himself to save and buy later for cash, and even if there were no uncertainty as to whether he can in fact get the same goods later at no higher price, the real burden of waiting six or eighteen or twenty-four months to start using these goods will often be heavy.

It is easy to condemn this urge for things now as foolish if not vicious. Familiar phrases—keeping up with the Joneses, putting up a front, conspicuous consumption, and waste—come quickly to the tongue. Used too glibly they hide the strength of the forces at work and mislead as to the real worth both of the durables themselves and of immediate possession.

It is true that these forces have not worked themselves out automatically. Consumers by and large do not leap to seize new goods, no matter how excellent these may be. Persistent sales promotion has been used, and in all probability has been necessary to convert these latent desires into action. Specifically, businessmen have had to promote instalment buying. They have done so, not because of benefits accruing

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1 P. F. Douglass, 196 *Annals of the American Academy of Political and Social Science,* p. xi (March, 1938). Although the present author claims no originality for the idea expressed above concerning the frustrations that might develop from denying consumers easy access to the consumption of durables, he has not found it systematically discussed in print. It is an idea voiced in passing by a good many people, but needs systematic exploration.

to their customers, but because they saw opportunities for profit both from the increases in sales volume they could expect and from the providing of the instalment service itself. The benefit to consumers has been incidental.

Here again critics have found severe fault with the business of instalment selling. Serious doubts have been expressed for many years by many writers as to whether consumer credit of any kind should ever be promoted aggressively.[2] Consumer credit, they argue, may be both necessary and useful, but it must be used sparingly and with very great self-control. The more conservative lenders and merchants pattern their behavior upon this premise. They offer credit freely and under reasonable, liberal terms but only if the consumer seeks it or takes it with a minimum of promotion.

One must not assume from this line of reasoning, as some authors do uncritically, that consumers who buy on credit are putty in the hands of the sellers and lenders, or that their use of credit is checked only by what the seller finds to be profitable. The restrictions imposed by credit sellers in their own interest are admittedly important for some buyers, but they are by no means the only outer restraints tending to check abuses. For a long time consumers were restrained by community disapproval from the purchase of "luxuries" on credit, or even of any kind of personal debt. The disapproval was supplemented by the bad reputation of many instalment sellers and lenders. In many communities the consumer lost caste if he bought from such merchants.

This sort of social feeling and pressure still exists, although it has become much weaker in recent decades. The change is commonly attributed to the escape of automobiles from the general ban, and the extension of ideas developed in the automobile industry to other trades handling durables. Just as it had long been respectable to go into debt for a house, so the automobile industry managed very quickly to make it respectable to go into debt for a car. Automobiles doubtless participated in the virtues of real estate as a respectable basis for debt because they required a substantial investment well beyond the cash resources of most consumers, and also because experience soon showed a used automobile to be readily marketable. Furthermore, the agencies set up to finance automobile sales were set up specifically for the purpose, or developed out of agencies of wholesale financing. They escaped the taint of identification with loan sharks, and in the beginning had little to do with the sale of goods to immigrants, laborers, and other humble folk. Automobiles thus led the way in achieving social

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[2] See, for example, E. R. A. Seligman, *The Economics of Instalment Selling*, Vol. I, p. 60: C. W. Phelps, *Retail Credit Fundamentals*, pp. 20–24; and E. E. Eubank, "Case Study of the Effects of Consumer Credit Upon the Family," 196 *Annals of the American Academy of Political and Social Science*, pp. 211–220 (March, 1938).

acceptance for instalment buying, but did not break down all feeling against it. At least the more literate, the more cautious, and the more social-minded consumers have continued to be exposed to a wide variety of influences urging restraint in their use of credit.

The Prudence and Competence of Consumers.—It must not be assumed that the consumer is putty in the hands of those who would urge him to hold back, any more than that he is putty in the hands of the promoters. He is himself, in fact, a far from negligible factor in controlling instalment buying so as to keep its use within tolerable bounds. As we have seen, the vast majority of buyers on instalments manage their affairs so as to pay out reasonably well. Many of them, perhaps most of them, take a little more time to pay out than the formal contracts set. Many of them have to be reminded and occasionally persuaded to keep them paying along steadily. But only a few are subjected to severe collection procedures, and fewer still turn up as clients for the relief agencies or are written off as bad debts. No doubt an outside observer looking at the records even of the families that pay out well could find a good many cases in which he would doubt whether instalment buyers exercise much wisdom or foresight. Probably very few of them work out detailed budgets or formal answers to the types of question they are advised to ask themselves in manuals on family finance. Nevertheless, by some combination of outer restraints and self-control, most of them seem to muddle through.

This sort of judgment naturally gives no answer to the arguments of those who maintain that instalment buying is essentially improvident. To the person who feels that the only economical way to buy is to pay cash, and that anyone who lacks cash should do without until he can save the purchase price, instalment buying is still bad financial management even if it leads to no particular difficulties. In the absence of standards by which to test consumers' choices, such opinions mean very little. At best they substitute a judgment made by someone to whom the problem is purely intellectual for a decision made by another to whom the practical consequences of the choice are extremely important. At worst they represent patronizing advice given by the secure and comfortable concerning the desirability of sacrifices they themselves never make.

Whatever its other shortcomings, the argument from the generally satisfactory record of instalment buyers in meeting their obligations gives a valid answer to the picture of the "typical" debtor sometimes painted by those who draw their generalizations from looking at the lowest fringe of incompetent and unfortunate consumers. It takes much of the force out of the painstaking portrait of financial incompe-

tence built up in such a work as Josephine Lawrence's widely read novel, *If I Have Four Apples*. Miss Lawrence portrays characters lacking the slightest trace of sales resistance and even the most elementary competence in the arithmetic of earning and spending. One can feel the pathos of her Hoe family, caught in the eternal dilemma of men whose desires exceed their abilities. One sees clearly that as the book closes they are drifting inevitably to disaster. One does not have to agree, however, that they are typical instalment buyers.

Miss Lawrence and those who take her position also do not deal adequately with the question whether the results make the struggle worthwhile. In her story, the Hoes stave off disaster year after year, meanwhile enjoying the use of many durables and taking pride in their ownership. The author makes no effort to portray in equal detail life for the Hoes in the absence of instalment buying. Critics can easily make a superficial case against instalment buying by showing that many families must struggle hard when they undertake to acquire durable goods by this process. They rarely consider the possibility already mentioned that in our society the frustrations and ills of not having may bear more heavily than the labor of meeting debts. In other words, the true difficulty lies not in instalment buying but in the limitations of the economy as a provider of goods for its people. The ills of a family struggling hard with instalment contracts may still be less than those of a family that has no debt but also no durables.

Statistics on Consumer Prudence.—Except for data on payment records given in earlier chapters, few meaningful statistics exist that show how effectively consumers restrict themselves in their instalment buying. Chapter 25 will make some indirect comparisons of the obligations undertaken by consumers and their incomes. These will suggest that as a class consumers do not get in over their heads or obligate themselves for excessive periods into the future. A small sample of the Electric Home and Farm Authority's contracts analyzed by Coppock indicated that only about 3 per cent of the consumers obligated themselves to pay more than 10 per cent of their monthly income on purchases financed by this agency. Two thirds of those financed undertook obligations representing less than 5 per cent of their monthly income. Coppock points out that these figures do not cover obligations elsewhere, but also says that only one third of the purchasers reported themselves as having instalment debts elsewhere when they undertook the Electric Home and Farm Authority's contracts.[3] Such figures do not indicate extreme carelessness among consumers in assuming instalment obligations.

[3] J. D. Coppock, *Government Agencies of Consumer Instalment Credit*, p. 121.

Interviews in the instalment trades also throw doubt upon the common accusation that buyers who once get into debt on instalment purchases do not get out for a long time. Admittedly, almost any long-established instalment merchant who sells a wide assortment of goods can find buyers who have not been out of debt to the store for many years. Most merchants are not too enthusiastic about them, since they are likely to end in a substantial loss when the customers eventually move away, or lose their earning power, or die. In practice, however, merchants are more concerned with devising ways to keep their ordinary accounts going two or three or four years. Even this is usually possible only where a store combines the sale of durables with the sale of soft goods. In such a store the very long-lived accounts are apt to be charge accounts in substance despite their instalment form, their principal advantage for consumers being that they level payments out over the year. One must therefore interpret "add-on" statistics very carefully. They do not justify an arbitrary assumption that consumers who once get themselves into debt for durables tend to continue buying more and more of these sorts of goods simply because they can get credit.

Reasons for Serious Difficulties.—Although most consumers avoid getting into very serious difficulties through instalment buying, the fact remains that some families do fall into them. In the worst of these cases critics and reformers find the horrible examples they use to point warnings that instalment buyers run substantial risks. In many of these cases of extreme difficulty, social factors beyond the immediate control of either buyer or seller may precipitate the trouble. Thus Nugent attributed the serious difficulties into which many small debtors in Detroit fell during the middle 1930's to three major factors: (1) The exceedingly violent reduction in automobile production and consequently in employment of Detroit's workers between 1929 and 1932. (2) The irregularity of employment in Detroit because of the extreme seasonality in automobile production. (3) The severity of Michigan's garnishment law under which a very heavy percentage of the worker's income could be attached for debt.[4] Unwise purchasing by consumers and overselling by the merchants undoubtedly made some instalment buyers particularly vulnerable to these strains. When one looks back to the appearances of things in the late 1920's, however, one must remember that it is much easier to be wise after the event than before.[5]

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[4] R. Nugent, "Devices for Liquidating Small Claims in Detroit," 2 *Law and Contemporary Problems*, pp. 259–60 (April, 1935).

[5] See M. H. Risk, "Instalment Sale Contracts in the Detroit Conciliation Court," 2 *Law and Contemporary Problems*, pp. 269–284 (April, 1935), for a description of the factors responsible for the difficulties of a small group of delinquent debtors studied in detail in Detroit.

Excessive Debt as a Form of Social Maladjustment.—Perhaps the most interesting and informative studies made thus far of hopelessly involved debtors are those of the Family Service of St. Paul, Minnesota.[6] Some 4,000 families provided the raw material to be analyzed. Not all of these debtors were in trouble because of instalment buying, but for many of them outstandings under instalment purchase contracts were at least one element in the problem. Total debt, excluding real estate mortgages, ran as high as $1,000 for families with incomes less than $2,400 a year, and as high as $2,500 for families with incomes up to $4,000 a year.

Debt, as such, is not always the important causal factor that gets such families into difficulty. A fairer description is that debt happens to be the form social maladjustment takes for some families.

> Case after case, upon careful analysis, reveals that this inability to use credit successfully is in many instances symptomatic of more deepseated social illnesses. Adding to the problems of this group, but not playing an important part as causal factors, are abuses by extenders of credit and economic problems such as unemployment, low wages, and underemployment. That they make the task of the treatment agency more difficult and the life of the client more miserable is not to be overlooked. Present in these cases we find over and over again the age-old social problems—marital difficulties—child neglect—personality difficulties—environmental problems—the whole range of social illnesses. It seems obvious that these problems must be treated on a case-work basis.[7]

These studies also suggest that a human being in his perverse way may find the role of harassed debtor the happiest choice open to him.

> We know that there are many satisfactions which providers get through furnishing things for those they love and for whose welfare they are responsible. Even if they have to go into debt, their very ability to supply things may be incense to their ego. These gratifications are sometimes less subtle. Debt to some represents actual power or control over others. This shows itself in the enjoyment they get from keeping creditors waiting on "tenterhooks" for payment. Some profess to be amused by demands for payment, especially if they are able to evade it by offering a tough face-to-face resistance to the collector. This manly attitude may also be used as a way of showing off before others. . . . Fretting and being fretted by a reality like indebtedness aids the dispersal of pent-up feelings arising from a totally unrelated source. For example, we know one man who spent all his spare time thumbing over his bills, rearranging and totaling them in different stacks and under different headings. Although his income would

[6] For a description of the conclusions reached see A. A. Heckman and F. Whitmore, "Family Problems and the Family Dollar: Some Case Work Aspects of Family Indebtedness," and the discussion by A. A. Heckman in *Conference on Consumer Credit in the National Emergency: Proceedings,* pp. 88–90.

[7] Heckman and Whitmore, *op. cit.,* p. 23.

> have permitted him to do so, he was unable to adopt and carry out a sustained plan for reducing his obligations. He used his bills to sublimate anxieties which arose from certain frustrated instinctive cravings. . . . If their debts fulfill this function for them, and for many it is precisely what debts do, it is understandable why they cannot make an energetic endeavor to be free of them.[8]

How many of the extreme examples of difficulty from unwise instalment buying are pathological debtors of this type it is impossible to say. If they are eliminated from consideration, however, as being cases of general social maladjustment rather than cases of abused credit, the argument that instalment buyers generally are unable to control their use of instalment credit with reasonable effectiveness loses much of its force.

Such a conclusion does not justify dismissing the whole matter from the attention of the instalment business. Although extreme cases of this sort presumably are not susceptible to any training designed to improve their efficiency as credit buyers, there is no reason why the great mass of normal consumers should not be given as much training as possible. Similarly, the fact that these uncontrolled consumers are in some sense not rational does not justify the instalment merchant in washing his hands of them. He still has a formidable responsibility (which many retailers try to meet) in trying to identify this kind of debtor, trying to keep him out of trouble in spite of himself and cooperating with other agencies so as to avoid useless and perhaps harmful collection tactics, and to bring the situation under some degree of control.

Ways of Rehabilitating Embarrassed Debtors.—An important part of the control mechanism open to consumers in handling instalment debt lies in the devices available to them for getting out of difficulty once they have fallen into it. For true pathological debtors only social work offers any promise of effectiveness. For debtors who seem reasonably capable of managing their affairs if they are relieved from the harassment of importunate creditors and given a fresh start, other devices are required. Most merchants will give a debtor who has got into trouble a chance to get back onto his feet. Not all creditors are reasonable, however, and some are themselves hard pressed, so that the debtor sometimes needs protection. Furthermore, even the reasonable creditor sometimes needs devices for forcing the unfair or dishonest debtor to pay what he can when he finds the going hard.

The traditional legal device by which debtors wipe the slate clean and get a fresh start is bankruptcy. This device has not proved very useful

[8] *Conference on Consumer Credit in the National Emergency*, p. 90.

in the past for debtors under instalment contracts, partly because people in sight of bankruptcy do not ordinarily incur such obligations, partly because it is cumbersome and expensive. One study of personal bankruptcies in Chicago found excessive instalment buying to be a principal factor in less than one per cent of the cases and even a contributing factor in only 10 per cent.[9] Although credit and collection offices sometimes guard themselves against hasty or fraudulent bankruptcy by getting financial statements from their customers, and though they occasionally accuse customers of making too quick use of the bankruptcy procedure, this study indicates that bankruptcy is not really used much to handle difficulties caused by consumer debt.

Chapter 13 of the Bankruptcy Act, passed in 1938 after some years of informal experiment, represents an attempt to provide relief for small debtors without carrying them into actual bankruptcy.[10] The benefits of the chapter are open to anyone who works for hire and whose total income does not exceed $3,600 a year. Such an individual, called a "wage earner" for purposes of the law, may apply for the benefits of the chapter if he is insolvent or has debts he cannot pay as they mature, even though he has property of a value greater than his debts. Very detailed procedures and regulations are specified, but the substance of the system is to give the embarrassed debtor an opportunity to work out a plan under which he will pay his obligations from future earnings over a period up to three years. Creditors are bound by the plan, and subsequent creditors are restricted in their right to garnish. When the debtor has complied with all terms of the plan he is entitled to a discharge of the claims against him. If he fails to carry out the plan the court may dismiss it, leaving him again subject to the ordinary legal proceedings for debt.

Woodbridge found only seven or eight cities in which Chapter 13 had been used extensively; in a few others judges used it occasionally. He attributed its small use, at least in part, to the fact that fees received by referees in bankruptcy from Chapter 13 settlements were small as compared with those received under other bankruptcies. Subsequently steps were taken, over vigorous political opposition, to pay referees salaries rather than fees so as to reduce their concentration on the more lucrative types of case, but as of early 1947 the necessary appropriations had not been made. Only when this step has been taken will it be possible to decide whether the plan is workable.

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[9] J. H. Cover, *Business and Personal Failure and Readjustment in Chicago*, pp. 58–63.

[10] F. Woodbridge, "Wage Earners' Plans in the Federal Courts," 26 *Minnesota Law Review*, pp. 775–823 (1942), describes Chapter 13 in detail and reports on the success of the chapter in accomplishing its objectives. The discussion here has drawn freely from Woodbridge.

Personal Receiverships and Informal Adjustments.—In another article, Woodbridge analyzes the statutes providing for wage earners' plans enacted in Michigan, Ohio, Virginia, and Wisconsin.[11] Although the plans differ in detail, their general procedure is to permit debtors who cannot pay their debts to file petitions before appropriate courts asking that they be placed in personal receivership. A petitioner lists his debts and other pertinent information. If the petition is approved, the court works out a plan under which the petitioner pays all or part of his wages to the court or a trustee. What can be spared from his own needs is distributed among the creditors. The receivership protects the debtor from garnishment of his earnings, and, in some of the laws, from other forms of attachment as well.

The theory back of the receivership is that most debtors wish to pay their debts and that most creditors will give their debtors a reasonable opportunity to pay. The receivership forces recalcitrant creditors to be reasonable and also puts the debtor under pressure to organize and control his finances. These things are accomplished without his having to take the stigma of bankruptcy. Such procedures do not solve the problems of the truly pathological debtor or the dishonest debtor. They do provide a way to prevent unscrupulous and unreasonable creditors from victimizing honest but unwary or unintelligent debtors.

Individual communities also set up plans for handling small claims fairly. Thus at least three plans were operating in Detroit during the depression years before the war:[12]

1. The conciliation Division of the Common Pleas Court for the City of Detroit, first set up by order of the presiding judge and subsequently by statute, developed into a plan for instituting what amount to personal receiverships. Procedures of the division are informal but binding on the parties. In the depths of the depression of the 1930's it commonly handled from 100 to 300 cases a week.
2. In Hamtramck, an independent jurisdiction entirely surrounded by Detroit and largely inhabited by Poles, informal procedures were set up by one justice. He had power to grant judgments and issue garnishments, but in practice he worked out many agreements between debtors and creditors. His work bore relatively little on instalment buying, being confined largely to the adjustment of rent and grocery bills.

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[11] F. Woodbridge, "Wage Earners' Receiverships," 23 *Journal of the American Judicature Society*, pp. 242–282 (April, 1940).

[12] See the symposium on "Instalment Selling" in 2 *Law and Contemporary Problems* No. 2 (April, 1935), and especially the articles by R. Nugent and M. H. Risk. The Michigan Personal Receivership Act applies in cities of 50,000 or more population, other than Detroit.

3. The Michigan Merchants' Credit Association, an organization of merchants selling on credit, had a plan under which it attempted to avoid garnishment by sending the names of defaulting debtors to their employers. The employees in question were urged by their own personnel offices to work out a settlement. The merchants subscribing to the plan agreed to take no garnishments if settlements were worked out and lived up to.

The Nature of Rationality in Instalment Buying.—Set down in logical detail, the problems a consumer must solve in bargaining for a credit purchase seem very formidable indeed. Lists ranging up to nearly a dozen separate items have been made up by various commentators, and these cover only the credit part of the transaction. A completely rational consumer, in the traditional sense, would first have to decide whether he wants the goods in question more than something else, whether he can afford the price offered by a particular dealer, whether he can get a better price from some other dealer, and whether he is buying the best proportion for his purposes of merchandise and service in the "bundle" offered him. Credit as such comes up only in the last of these problems. Having decided how much credit he wants, he can then shop around for the best offer of credit. Here he must compare what the retailer offers with what outside finance companies, commercial banks, industrial banks, personal finance companies, and credit unions have to offer. He must explore the possibilities of borrowing against resources such as insurance policies and savings accounts. At some stage he must decide whether it would not be better to postpone the beginning of consumption and save to pay "cash" at some future time.

Although no one really knows how consumers think about these matters, one may safely assume that few of them systematically explore all these problems and alternatives. Sometimes the choices are limited. Thus the overwhelming urgency of a consumer's need may leave him no real choice between buying on credit and saving up to pay "cash" later. He may have no assets to offer as security other than the goods themselves. He may have no access to cash lenders other than loan sharks. Even when limitations of this sort are allowed for, however, it is doubtless true that few consumers carefully explore all the possibilities.

Critics of the marketing system tend to view this situation as bad, and they have some degree of justification for their belief. They need to be reminded, however, of the very important point that consumer vigilance and energy in shopping often are subject to diminishing returns.

> Now, one of the principal gains from a rising standard of living, such as has accompanied the development of modern retail markets, is the luxury of "not bothering," and it would indeed be illogical to allow the technical advances of the last century, with their resulting possibilities of increased leisure and greater physical wealth, to lead to nothing more than the devotion of an ever-increasing proportion of the consumer's time to the task of selecting from among the fruits of progress.[13]

Furthermore, as we have seen, very considerable changes in finance charges may have very little influence on the total price of the "bundle" the consumer buys. Under such circumstances the "luxury" in not bothering may be very slight indeed. Also, the advantages that arise from careful shopping, carried to the extreme, may very quickly be offset by the real, if not in fact by the monetary costs entailed. Even a 15 or 20 per cent increase in the finance charge may be to the consumer only 25 or 50 cents a month. In an economy where 65 cents an hour is attacked as too low a minimum wage, a saving of 25 or 50 cents cannot seem very large.

Another complicating factor lies in the unsolved question, What proportion of the buying public has to shop aggressively in order to assure the establishment of fully competitive prices? Many consumers shop aggressively all the time. It has ordinarily been assumed that the pressure from the minority of consumers who are shopping aggressively at any time is enough for the purpose. Under the one-price system, all consumers benefit from aggressive shopping by a few. In stores that follow a variable or bargaining price policy, they may not fare so well. It is not likely, however, that large unwarranted deviations from competitive prices can long persist in situations where consumers have access to a considerable number of competing offers.

The Extent of Rationality in Instalment Buying.—Evaluations of consumers as shoppers against this background conflict in high degree. Even the most extreme critics of retailing would not argue seriously that the situation of present-day consumers approaches that of, say, the rank-and-file customers of country merchants in the Reconstruction South.[14] A very large proportion of those consumers could not read or write or cipher. The computation of interest was an unfathomable mystery—bookkeeping almost beyond human comprehension. The poor quality of the goods sold, the variability in prices both for goods sold and for products taken in payment, and the absence of even the most rudimentary knowledge as to costs of either goods or credit, left such consumers helpless. About all they could do was to sign their

[13] H. Smith, *Retail Distribution: A Critical Analysis*, Oxford University Press, 1937, p. 22.

[14] T. D. Clark, *Pills, Petticoats, and Ploughs*, pp. 315–317.

marks and trust to the good faith of a merchant who faced little competition in his isolated community.

There does seem to be a general feeling among critics that most consumers are pretty ignorant and gullible. Even where they are not gullible, the difficulties of overcoming ignorance make for inadequately effective competition. Thus various authors call attention to sharp changes they have observed in the attitude of consumers when they learn how large the credit service charges may be when stated as "true interest."

Many retailers interviewed by the present writer believe that the consumer is a considerably more aggressive and effective shopper than these critics would expect. They concede that the consumer has less than perfect knowledge and skill, and that he works under difficulties of many kinds in buying; but they are convinced that enough consumers shop around to keep any store from getting very far out of line. They also feel that over the last forty or fifty years competition among retailers has become increasingly effective. Easier transportation has greatly widened the areas of choice open to consumers. Furthermore the very great development of advertising media has made it possible for consumers to do a good deal of shopping without traveling at all. These developments tend to hold price differences within fairly narrow limits. Admittedly there are many opportunities for retailers to cut corners in bargaining with their customers, but the retailers maintain that the limits to deception, sharp practice, and hard bargaining set by competition are narrow.

Problems Raised by "Blind" Buying.—The real difficulty, as retailers see it, is that, in the common phrase, consumers "buy blind" as regards both the goods and the credit they purchase. Most consumers, even in this relatively literate age, find arithmetic difficult and the computation and interpretation of percentages and interest rates virtually impossible. For that reason they can be charged one interest rate under the impression that they are paying a lower one. They can often be confused into thinking they have bought some service, such as insurance, that they do not receive in fact.

Curiously enough, even the efforts of critics to establish order in the quoting of credit charges has sometimes increased rather than reduced the consumer's confusion. One commentator illustrates this confusion of advice. He takes a note for $100 in an industrial bank, with a discount of 6 per cent as the price for the money, and an additional 2 per cent as a fee for investigation. The consumer would receive $92 in cash. Repayment is set at $2 a week, so that the customer pays the face of the note in 50 weeks. Using the formulas preferred by half a

dozen different writers on the subject, he finds that "the effective rate of interest on this loan" can be stated as 6.2 per cent, 17.3 per cent, 18.77 per cent, 19.2 per cent, and 19.5 per cent per annum on the funds of which the consumer has the use.[15] When experts disagree so widely it is perhaps unreasonable to expect the consumer to put much weight upon their advice.

In any event the consumer's blindness in buying credit is overshadowed by the much greater difficulties he faces in evaluating the quality of the merchandise itself. Even experts cannot always tell much about the difference in quality between what they offer and what their competitors offer. Furniture merchants interviewed by the present author, for example, said quite frankly that in many circumstances they could not recognize differences between competing offerings of furniture substantial enough to explain a good many dollars difference in the value without either tearing the pieces down to see their inner construction or getting accurate information from the manufacturers. Under such circumstances the consumer can expect only the roughest sort of competitive controls to operate, and the difficulties of comparing credit offerings become relatively unimportant.

The situation is still further complicated for the consumer when informed experts disagree as to the value of particular goods. For example, half a dozen experts looking at a diamond or a used car or a piece of furniture, and doing their best to evaluate it honestly, may come out with a wide range of values. Here again the consumer faces a shopping problem alongside which the difficulties of shopping effectively for credit rank very small.

Uneven Emphasis in Shopping by Instalment Buyers.—An additional fact cannot be gainsaid. Consumers tend to blind themselves unnecessarily by concentrating their attention on particular aspects of the bargain; they thus leave an opportunity for the seller to add "concealed" charges to the neglected aspects of the bargain. For example it is said that many consumers have no interest whatsoever in the carrying charge, and comparatively little in the aggregate cost of goods and credit, but a great deal in the down payment, the size and frequency of the instalments, and (for automobiles) the trade-in. The limits within which consumers can be misled in this situation have not been adequately surveyed. Isolated examples indicate that for some consumers the limits may be fairly wide. Thus an experiment in one store, brought to the attention of the present author, put no aggregate price on a piece of merchandise and made no formally stated charge for credit.

[15] G. Harold, "Industrial Banks," 196 *Annals of the American Academy of Political and Social Science,* p. 143 (March, 1938). Harold does not give the formulas used by the writers he mentions.

All that was done was to offer the item for $5 a week. During one period the item sold for $5 a week for ten weeks. Then the price was changed to $5 a week for twelve weeks. The store found no perceptible difference in the volume of sales of the item. In 1939 another author found an unstated number of used car dealers placing on their cars price tags that called for a specified down payment and a stated amount per month but gave no information as to the number of payments. Upon inquiry he found that payments ran from twelve to twenty-two months in specific sales.[16] Such situations evidently lend themselves to abuse, although one may suspect that in the course of time the community would get onto what the store was doing and the merchant would get some severe reactions.

As to trade-ins, Smith argues that most owners of cars believe, first, that their cars are worth more than the average current market price for similar cars, and, second, that dealers quote prices on new cars that are uniform for a territory because factories set them this way. The first belief makes the average car buyer put an inordinate amount of attention on the trade-in value. The second permits the seller to raise the apparent trade-in value and compensate himself by padding the extra charges.[17]

The available records on earnings of retail automobile dealers do not indicate that these practices result in an exorbitant rate of profit. Despite all the criticism, competition apparently is strong enough to make the merchant pass back to consumers in the aggregate these "concealed" extra charges. It can hardly be doubted, however, that individual consumers have either been charged unfairly high aggregate prices or received unfairly low ones as the result of this situation.

Data do not exist upon which to base judgments as to how much variation in the prices charged individual customers the prevailing systems of quoting prices and charges will permit. Many individual examples of substantial differences can be found. Thus the author visited two directly and aggressively competing furniture stores across the street from each other in one large city. The prices they quoted for goods were comparable. But one charged one half of one per cent per month on the original unpaid balance for instalment credit, whereas the other charged three fourths of one per cent a month. There was no evidence that consumers realized the difference. In fact it was apparent that the store with the lower carrying charge was itself not aware of what its competitor was doing. Comparisons have also been made from time to time among the carrying charges of supposedly competing agencies. These may show fairly substantial differences.

[16] T. H. Smith, *The Marketing of Used Automobiles*, p. 160.
[17] *Ibid.*, p. 113–115.

It is by no means clear that the differences are true ones rather than reflections of differences in the markets, the goods, or the services. Only an elaborate and very carefully conducted survey could make accurate comparisons of prices paid by consumers for the same thing in the same market. It seems reasonable to surmise, however, that many of the apparent differences can be explained, and that the true range of prices would be considerably reduced if the full facts of the transaction were known. Whether or not the differences remaining would still be large enough to warrant severe criticism no one can safely say.

Ethical Standards of Instalment Buyers.—A report upon how consumers manage their side of instalment buying must include some consideration of their ethical standards. Alongside the helpless, gullible consumers some writers describe must be placed another group. Tricky and dishonest buyers are common enough to necessitate the merchant's staying on guard. Even the merchant of doubtful integrity has found the battle of wits by no means one-sided. Thus Mussey, in his report on the "fake" instalment business in New York City around 1900, puts heavy emphasis upon what he calls "the habitual and widespread dishonesty of purchasers." He adds the opinion that "a rather increasing proportion of goods is being bought without any intention of paying for them." [18]

More recently an extremely cautious student has even found it possible to say a few not unsympathetic words about the loan shark:

> In reading the literature, one develops after a time the feeling that the unscrupulousness of loan sharks has been overdrawn. They were to a large extent the victims of circumstances not of their own making. The generally low level of the whole business of 1910 is exemplified in the observation that illegal lenders were often swindled by borrowers, and, worse, that many persons regarded this as virtuous behavior.[19]

A social worker, presenting conclusions drawn from a study of 100 families in Cincinnati who got into trouble over consumer debt, criticizes the lenders and sellers for advertising "unethically and too seductively" and for permitting the use of credit too easily; but he adds a warning against "the erroneous impression that the sufferers are all upright, conscientious folk who have merely been the unhappy victims of soulless extortioners." [20] Even that severe critic of instalment selling, W. T. Foster, remarks that "without the protection of strong instalment contracts, the seller or his assignees would be victimized by

[18] H. R. Mussey, *The "Fake" Instalment Business,* pp. 32, 33.

[19] W. P. Mors, "Rate Regulation in the Field of Consumer Credit," 16 *Journal of Business of the University of Chicago,* p. 54 (January, 1943).

[20] E. E. Eubank, 196 *Annals of the American Academy of Political and Social Science,* p. 216 (March, 1938).

unscrupulous consumers, of whom there are enough to bankrupt careless credit grantors." [21]

Types and Extent of Consumer Abuses.—Businessmen who have suffered directly from the activities of the unethical minority of consumers feel as strongly about them as do the spokesmen for consumers about unethical merchants. A great many retailers and lenders will remark that 90 or 95 or 98 per cent of the people are honest, and speak bitterly of the remaining 10 or 5 or 2 per cent.

The abuses they complain of are numerous and varied. Most but not all have to do with ways of avoiding payment for something or other. At one extreme they concern customers who take advantage of the fact that they owe the merchant money to extort "unfair" amounts of "free" service. At the other extreme fall the outright dishonest buyers who deliberately walk out of the picture in an attempt to avoid payment. Veterans of the business tell amazing stories of the lengths to which fraudulent buyers will go. Thus one furniture store owner recalls having a customer complain about a slow delivery and finding out upon investigation that the customer was embarrassed because the person to whom he had arranged to resell the furniture had called for it before the original seller had delivered it. Some consumers are professional criminals. They work in groups, planting people in offices so as to permit their giving false references that will stand up under telephone checks.

Between the extremes come buyers who abuse the goods so that they have little repossession value; consumers who try to give up goods on which they still owe balances because they have found new goods they like better; and consumers who try in effect to rent goods from the instalment seller by purchasing on instalments with little or no down payment, making no payment after the first one, expecting to have the use of the furniture for a short period before the merchant decides to repossess, and giving up the goods without much argument when repossession is called for. When they have completed the cycle with one store they try it with another.

Sellers who enforce the letter of the law in violation of trade custom have their counterpart among consumers. An ignorant cash lender may be tricked into accepting usurious interest so as to make collection at law impossible. Again, some consumers take advantage of specific legal situations to escape payment. Proponents of legislation designed to permit garnishment of the wages of Federal employees report angrily that some workers, when they go into the Federal employ, decide simply to thumb their noses at their creditors because there is no effective way

[21] W. T. Foster, "Public Supervision of Consumer Credit," *Pollak Pamphlet 36*, p. 16.

by which they can be made to pay.[22] Even when debts are technically collectible at law, the buyer may work things out so as to make collection in fact impossible. For example a request for a jury trial may cause long delays in jurisdictions where court calendars are crowded. Meanwhile all payments are suspended. The war also made abuses possible. One merchant told the author of a serviceman's wife who rented to someone else an apartment furnished with goods being bought on instalments but refused to pay anything on the debt and claimed the protection of the Soldiers' and Sailors' Civil Relief Act. Another wife, taking advantage of the civilian's difficulty in tracing down men in the service, put the furniture her husband had contracted to buy into storage, refused to pay for it, refused to disclose its location, refused to tell where her husband was, and refused to make any kind of adjustment. When the law limits the percentage of the debtor's income creditors may garnish, a consumer may defraud his creditors by having relatives and friends garnishee his income up to the legal limit for several years into the future.

Practically no data exist as to the frequency of these consumer abuses. The figures on losses and write-offs of bad debts already presented in Chapter 17 presumably portray the maximum beyond which consumers have not been able to push outright frauds and evasions. Not all of these write-offs are due to fraudulent and unethical behavior by consumers, however, and there is no way, on the basis of available information, to tell how much of the total loss is in these categories. There is no doubt, however, that the proportion is large enough to warrant aggressive self-protection by merchants, and to make necessary the maintenance of a considerable degree of legal compulsion behind consumer debts.

[22] See the testimony in *Garnishment of Federal Employees,* pp. 26, 34, 40, and 67.

PART III

ECONOMIC FUNCTIONS AND CONSEQUENCES OF INSTALMENT BUYING

CHAPTER 22

THE ECONOMIC FUNCTIONS OF INSTALMENT BUYING

The Specific Economic Contributions of Instalment Buying.—In considering the part played by instalment buying in this country's economic development, one must maintain a sense of proportion. Writers on instalment buying tend to go to extremes. In its absence, some of them tell us, the American consumer could never have climbed to a level of living that all the world envies; but others also tell us that instalment buying has exacted a heavy price for its services. Its direct costs have been high, they say, and it has imposed a severe indirect cost by introducing new elements of instability into the economy and by visiting misfortune and distress upon thousands of consumers who use it unwisely. In all of this there is a tendency to exaggerate the power of instalment buying either for good or for evil.

The analyst of instalment buying also must maintain his sense of proportion in another sense. Much energy has been devoted to abstracting out the specific contributions of instalment buying to economic life. One can ascend to very great heights of abstraction in this sort of analysis and achieve useful results for some purposes. Really to be understood, however, instalment buying must be taken in its institutional setting. As was pointed out in Chapter 1, whatever its specific contributions may have been, and without regard to whether other tools might have been used to better effect, it is a device the consumers of this country have used in building up their holdings of durables. It therefore must share in the blame or credit, according to one's point of view, for this accumulation.

In the first instance, instalment buying may be thought of simply as a financing device—that is, a device used for taking care of part of the waiting involved in the long interval between the beginning and the completion of consumption of consumer durables. It can also be looked upon as having other economic functions. Thus, it is a device for reducing the investment in deferred satisfactions the consumer must make when he buys durables; it is a way of moving the consumption of durables forward in time for individual consumers; it is a device

for splitting into small units the purchase of satisfactions that come in large lumps because they are embodied in durables; it is a form of capital financing, and, in some senses, of consumer saving; and from the point of view of the seller it is a form of sales promotion. When applied to nondurables it is a device for leveling out payments for irregular purchases. All of these must be taken into account, in addition to the strict financing function of instalment buying, when one tries to analyze its place in present-day economic life.

The Offsetting of Time Lags in Consuming Durables.—The basic task of financing is to carry the burdens imposed by lags between the time when costs are incurred in producing something and the time when the benefits of the productive activity are received. Commonly this burden is thought of in monetary terms; it appears when the costs of a venture must be paid before receipt of the proceeds from the sale of the products. It can also be thought of in terms of "real" costs and benefits, since the expenditure of effort and the enjoyment of the resultant satisfactions may be widely separated in time. In either sense the essential task to be performed is waiting. Financing makes arrangements for someone to take this responsibility upon himself in any given situation and it carries out the arrangements made.

The time lag may go either way for a particular individual. It may represent either an incurring of costs followed by a subsequent receipt of benefits, or a receipt of benefits followed by an outlay of effort or cost. The first lag characterizes business financing, the second characterizes some types of consumption financing that make it possible to consume now and pay later.

Some critics think of instalment buying as merely a specific form of this kind of improvidence, but the idea is not justified. Admittedly there are circumstances under which instalment buying represents today's eating of tomorrow's harvest. The great bulk of the business, however, does something else. It helps to finance a time lag peculiar to consumer durable goods—the lag, often prolonged, between the beginning and the end of consumption of a particular unit of goods.[1] It is, thus, not properly described as financing today's consumption with tomorrow's income, and so cannot be disposed of arbitrarily as an example of improvidence or misfortune. Since consumption as well as payment continues into the future, it is more properly to be described as a financing operation implicit in the nature of durable goods. Instalment buying may or may not be the most beneficial and hence the wisest way to handle the financing problem in any given case, but the financing task is inevitably there and must be handled in one way or another.

[1] A lag also must be financed in the production and distribution of the good, but, strictly speaking, this is not consumer financing.

Instalment buying also must be differentiated in nature and function from so-called "convenience" credit. Although loosely used, this term ordinarily covers two sorts of services. One economizes the consumer's time, effort, and monetary outlays by consolidating isolated small payments into lump settlements at periodic intervals. This is not really financing in any substantial sense. The other service smooths out minor differences in time between the receipt and the expenditure of income. In practice the period financed can become very long, but it is usually quite short. In essence this form of credit permits the consumer to expend at least part of his income as it accrues, rather than as he receives it in cash. Its social soundness presumably is determined by whether the rate of expenditure is held below the rate of accrual.[2]

Still another distinction must be drawn between instalment buying and the financing of a family's life cycle. Students have made only a beginning toward working out normal or typical patterns of income and expenditure covering the full lives of individuals or families.[3] It is self-evident, however, that in no family is the flow of needs and income synchronized exactly. The two can be kept in balance only by some combination of saving and borrowing.

No sharp line divides convenience credit from life-cycle financing. The extent to which a family's spending runs ahead of or behind its receipt of income depends in part upon nothing more than accounting conventions. The longer the accounting period used, the more likely the spending and earning are to balance. The shorter the period, the less likely a balance. In practice the distinction between the two types is important chiefly because different sorts of agencies and procedures become desirable when one moves from the minor difficulties involved in synchronizing receipts and expenditures over two or three pay-check periods to the major difficulties involved in a family's effort to make the best possible distribution of its lifetime earnings over its lifetime expenditures.

The critical problems raised by the failure of family income to synchronize with family needs over fairly long periods ordinarily have been thought of as appearing in the form of the crises and emergencies that make cash remedial loans necessary. It is important to remember,

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[2] R. Nugent, *Consumer Credit and Economic Stability,* pp. 122–126, differentiates three types of consumer credit according to "their effects upon the consumers' balance sheets." Where a consumer buys durables on credit he expands both sides of the balance sheet; this is "consumers' capital financing." Where liabilities are increased, but not assets, and the increased liabilities exceed accruals of income, there is "consumers' deficit finance." Where consumers finance expenditures between dates of receiving income, the expansion of liabilities being offset by accruals of income and hence leading to no reduction of net worth, there is "income-period financing." This last is true convenience credit.

[3] See, for example, H. F. Bigelow, *Family Finance: A Study in the Economics of Consumption,* especially pp. 452, 453. Bigelow divides a family's life into saving, spending, and borrowing periods, but discusses the problem only in very generalized terms.

however, that the need for durables also comes up at particular times, and that these times will not ordinarily coincide precisely with the receipt of income or the accumulation of savings. Instalment buying helps the consumer meet this problem. An example is where it makes it possible for a family to purchase an urgently needed suite of furniture or kitchen stove at a time when it does not have enough income or accumulated savings to permit its paying cash. This use of instalment buying is incidental, however, to its primary task of helping to finance some part of the period between the beginning and completion of consumption of a durable good.

Moving the Individual's Consumption Forward in Time.—Of the additional services performed by instalment buying, the most obvious, and one of the most important in explaining its widespread use by consumers, is that it moves an individual's consumption of durables forward in time. Presumably this is what some people mean when they say that instalment buying "mortgages the future" to get present satisfactions. The phrase is quite misleading, however, since the consumer ordinarily pays faster than he uses up the goods. The buyer "mortgages his future" only in the sense that he commits himself in advance to spending a part of his income for particular future satisfactions. He may be wise or foolish, or it may be a matter of no great consequence one way or the other. It is not in any real sense, however, a purchase of present satisfactions from future income.

The moving forward of consumption that takes place is an entirely different phenomenon. An illustration will make its nature clear. Suppose a consumer decides on January first of some year that he wants a new refrigerator, that he will save up to pay cash, and that he can spare from each successive pay check an amount such as to provide the sum required at the end of twelve months. If he carries the plan through, he foregoes other expenditures for twelve months and also waits twelve months to begin obtaining the satisfactions to be derived from the refrigerator. He starts using the refrigerator on January first of the second year and continues to use it for, say, the next fifteen years.

If he decides to buy on instalments, he saves only long enough to accumulate a down payment. The monthly sums set aside from successive pay checks subsequent to the accumulation of the down payment go to pay for monthly instalments. If the down payment is, say, 25 per cent, he takes possession of the refrigerator and starts using it three months after he starts accumulating funds. Thus he passes the burden of nine months' waiting to someone else who is willing to finance it. He makes his payment in twelve months, as before, except that he "saves" for only three months and "pays instalments" during

the other nine. He still foregoes other expenditures for 12 months, and he still has the use of the refrigerator for 15 years. The essential difference is that at every moment during these 15 years he is nine months ahead in his consumption of where he would have been if he had saved up to pay cash. His setting aside of income to accumulate the down payment and pay subsequent instalments involves precisely the same sacrifices as foregoing expenditures to accumulate the cash price. The only significant difference in his costs is that he must pay a carrying charge to someone else who takes over the burden of waiting. That is the price he pays for advancing his consumption nine months. Whether the service is worth what it costs is a decision each individual must make for himself in his specific setting.[4]

This analysis purposely makes no comparison between instalment buying and payment for durables out of accumulated funds. Some critics of instalment buying seem to feel that the consumer's choice is between buying for cash in this sense and instalment buying. In practice, few instalment buyers have this choice. Their savings are likely to be in an inflexible form, such as insurance, pension funds, and real estate, or to be earmarked for other purposes they do not want to jeopardize. In any event, even if he has accumulated the price, the buyer has done so only at the expense of foregoing other expenditures and postponing consumption of whatever the accumulated funds eventually buy. The real costs he has paid for the accumulation must, therefore, be counted into the sum being measured.

Reducing the Investment in Deferred Satisfactions.—In addition to pulling the consumption of durables forward in time, instalment buying reduces the investment the consumer makes in deferred satisfactions. Each payment under an instalment contract is in effect divided between currently received satisfaction and deferred satisfaction. The shorter the period of payment, the larger the proportion of deferred satisfaction acquired. The longer the payment period, the smaller the proportion of deferred satisfaction. The payment term can be extended to the point where the buyer pays for satisfaction strictly as he receives it. He thus would eliminate saving or waiting for himself, these tasks being passed to others. His payments would become current expendi-

[4] In abstract theory an allowance should be made for the interest earned on the accumulated funds of the consumers who save up and buy for cash. In practice, however, the sums involved are so small, the opportunities for investment are so restricted, and the interest rates paid are so low that the the matter can be ignored as of negligible importance.

It is assumed in the above illustrations that manufacturers and distributors will adjust their operations to the decisions made by the consumers so that the goods will be available on either date. In practice one of the hazards run by the man who saves up to buy is that the goods will no longer be available at the original price when he has accumulated that price, perhaps no longer available at any price. The layaway plan is a device for protecting the consumer who is just beginning to accumulate funds for the purchase against this hazard. Of course there is also the possibility that the man who saves to buy may find prices lower or may get an improved model.

tures for current satisfactions, including a carrying charge paid to whomever provides the lump of unused satisfactions upon which he draws as he goes along.

Matters could conceivably be carried further by extending terms so that he extracts all the satisfactions in the goods before he finishes paying for them. Such a transaction becomes one resting upon consumption credit in the least desirable sense. It is a true "mortgaging of future income for present satisfactions," is improvident and can be commended only when justified by dire necessity.

In the reduction of the investment required to obtain the use of durable goods lies the substance of the statement sometimes made that instalment buying permits consumers to acquire goods they could not otherwise afford. A family living close to the margin of subsistence can perhaps afford to buy automobile transportation currently as it is used up, but not to make any substantial investment in future satisfactions of any sort. Those who say sternly that no one should ever go into debt for consumers' goods will argue that anyone can, if he will, save up his instalment payments and buy for cash later. However it can hardly be doubted that most humans find the compulsion of immediate satisfactions irresistibly stronger than that of future ones. They choose primarily among current satisfactions. If instalment terms, by cutting the investment to the vanishing point, make satisfactions from durables currently available at a tolerable cost, the typical consumer will take them. Otherwise he will seek an alternative immediate satisfaction.

Fragmentation of Payment.—There is some ground for arguing that the simple fact of dividing payments for goods into fragments is in itself a service without regard to its influence upon time lags or investments. Seligman maintains that the breaking of total payments into fractions is the distinctive and essential function of instalment buying.[5] One cannot doubt that many people find it considerably easier to make successive small instalments with immediate possession than to accumulate the same unit amounts and pay them in a lump. The economic man presumably would choose by comparing the benefit received from immediate consumption with the amount of the carrying charge; but most consumers are not economic men. Acting as human beings, many of them apparently can acquire durables only this way. In that sense instalment buying is, as has often been said, a device for facilitating the purchase of durables.

Secondhand Markets as a Device for Reducing the Investment.—Instalment buying is only one of several devices that could be used to

[5] E. R. A. Seligman, *The Economics of Instalment Selling,* Vol. I, p. 257.

achieve these various purposes. A consumer can reduce his investment in deferred satisfactions and move his consumption forward in time by purchasing used rather than new goods. This alternative is widely developed in some markets (notably automobiles) but not in others. Figures estimated by Smith indicate that in the late 1930's nearly one third of the country's cars represented an investment in stored-up transportation of less than \$50.[6] It may be taken for granted that, with few exceptions, these oldest and least valuable cars represented the holdings of the consumers with the lowest incomes. The automobile market thus concentrates the holdings of future transportation into the hands of a relatively few consumers who from time to time pass part of their holdings to other buyers and bring an additional store of deferred transportation into the pool by acquiring a new car.

The used-car business in this view is not an unfortunate by-product of the automobile industry but an integral part of a system by means of which the industry distributes its product among consumers of varying needs, tastes, and incomes. The situation can best be viewed as one in which new cars flow continuously into the available stock, old cars continuously flow out of the stock, and the stock itself is continuously redistributed among the consumers of the country. If we assume a static, fully saturated market in which every potential owner has all the cars of the kinds he wants and can afford, the only changes taking place from time to time would be in the identity of the individual owners and the individual cars. Individual consumers would be withdrawn from the pool of owners by age, ill health, death, or other forces, and be replaced by new ones who have reached the status of ownership for the first time or return to it after an interval of nonownership. Similarly, individual cars come into the pool as new cars, pass from hand to hand as used cars, and flow out of the pool as "junkers." In a static situation the inflow and outflow would balance each other so as to keep the available stock of transportation intact. The ratio of new-car sales to used-car sales would be set by the average number of times cars changed hands before flowing out of the pool.

For durables other than houses and cars, this system has not been so well developed. Stores accept all sorts of durables as trade-ins, but the trade-in value is often a way of reducing the prices of the new goods rather than acceptance of something with a resale value as part of the payment. For some types of appliances and musical instruments a meaningful trade has developed in rebuilt or reconditioned machines. It may develop further as time goes on, though it does not now seem likely that consumers with high incomes will in general develop the

[6] T. H. Smith, *The Marketing of Used Automobiles*, p. 20.

same degree of preference for new models of appliances that they have for new models of automobiles.

Secondhand Markets as an Aid in Accumulating the Investment.—Development of a secondhand market for automobiles with levels of price varying according to the age and condition of the car influences the need for instalment credit in another way. Under conservative terms a consumer builds up his equity in a car's stock of unused transportation more rapidly than he uses the transportation itself. He can use this equity to provide all or part of the down payment on the next car he buys. Thus, he can reduce the amount of cash he puts into the second purchase, or reduce the amount of credit he needs, or buy a more expensive car with no more indebtedness than his first purchase entailed. Smith found that as the purchase price of used cars increased, the proportion of transactions involving a trade-in rose sharply. At the highest price levels, nearly 80 per cent of the transactions involved trade-ins.[7] Of the new-car sales, 90 per cent involved trade-ins. This suggests the probability that a good many consumers gradually build up their investment in unused transportation over the years by a combination of instalment buying and trade-ins. It is also probable that one factor tending to reduce instalment buying by families as the head of the family grows older [8] is the accumulation of an investment in consumers' capital that makes instalment buying less necessary on new purchases.

Smith also describes the close relation between instalment terms and used-car prices in the developments that followed announcement of the so-called Six Percent Plan by the General Motors Acceptance Corporation in the middle 1930's.[9] Ford and others replied with a $25-Per-Month Plan. These changes in terms on new cars made used cars much less attractive to buyers with small resources and apparently played an important part in piling up a large stock of used cars.

The secondhand market also shortens the time a consumer must wait in order to start consuming the goods he wants. It is self-evident that, since the amount the buyer must accumulate to get the goods is greatly reduced, the period required is shortened.

Severe critics of the instalment system often completely overlook these economic services performed by the secondhand market. Thus Cohn divides the car owners of the country into "Vermont Yankees" who keep their cars until they gasp their last breath on a mountain top, and others who regard it as shameful to be caught driving last year's model this year.[10] He forgets all about the many millions who will-

7 T. H. Smith, *op. cit.*, p. 234.
8 See Chapter 6.
9 See Chapter 8 above.
10 D. L. Cohn, *Combustion on Wheels*, p. 257.

ingly purchase used cars as a way of coming up in the world and drive them happily. The market for used cars is part of the promotional system by means of which producers persuade consumers to spend a large part of their income for transportation, but it is also a part of the social institution by means of which stocks of consumer satisfaction stored up in durables are accumulated, financed, and distributed among those who want them.

Renting as an Alternative to Instalment Buying.—Renting with no eventual transfer of title is in some ways a substitute for instalment buying. It reduces the investment required of the individual consumer, it moves consumption forward in time, and it splits the payment for the goods into small fractions. Although durables of all sorts are rented, renting has taken over a major part of the market only in housing, where unit values are very high, the period of consumption is very long, and the property can be kept under observation by the owner. In housing consumers must choose between owning and renting, whereas with other durables it is commonly supposed that they have a third choice—doing without. This choice, though psychologically difficult, is supposed to be physically possible. How extensive the third choice really is can be determined only by field surveys. As for housing, so for others of these goods, going without may be almost or quite impossible. If needs have to be met, the choice lies among ways of meeting them. It may be that in durables of all sorts other than housing, instalment purchasing predominates over renting simply because it is feasible.

An important factor restricting instalment purchases of housing and encouraging rentals is that many people simply cannot afford to accumulate deferred satisfactions in housing. Only when terms are extended so greatly that the successive instalments represent little more than payment for satisfactions currently enjoyed, plus a carrying charge, does the substitution of ownership for tenantship become feasible. Under such circumstances the sense of ownership, however significant and meaningful it may be psychologically and legally, becomes largely an illusion economically. Furthermore, the loss of flexibility a family suffers when it buys rather than rents will deter many consumers from buying. Most other durables may be moved about easily.

Renting, in turn, has limitations as a substitute for buying on instalments because it may impose high costs upon the seller. The record keeping involved in rentals is relatively large and costly. Collection costs probably would be higher and losses probably would be greater than for instalment buying because the renter has less to lose than the buyer if he defaults on his contract. The chances are, too, that the goods would be abused more by renters than by buyers, so that their

life would be reduced. All of these costs would have to be covered in the rents. Consequently the probabilities are that for most durables the cost of renting for extended terms would exceed the cost of selling on instalments.

Despite the fact that rentals are much less important for other durables than for housing, they should not be dismissed as nonexistent or absolutely unimportant. There is, for example, much renting of furniture and household appliances by landlords who provide furniture, refrigerators, kitchen ranges, and the like for their tenants. Outright renting of durables as independent units, although considerably less common, may come to an appreciable sum. Even retailers, whose normal business is selling, sometimes rent furniture for use in college dormitories, company-owned houses, and other rented housing. In a sense, the operations of common carriers and taxicab operators can be considered a rental of the durables involved. By and large, however, instalment buying has proved to be much more useful than renting in the consumption of durables.

One big advantage derived from renting by consumers should be emphasized. It reduces to zero the waiting period during which the individual consumer accumulates funds. If it be assumed that producers have adjusted their operations to what the consumer wants, and that they can provide goods at any time the consumer wants them, the consumer who decides to rent starts consuming immediately.[11] Under the illustration given above, he waits neither twelve months to accumulate the full price nor four months to accumulate the down payment. At all times during the life of the goods his consumption is twelve months ahead of the cash buyer and four months ahead of the instalment buyer. Whether the additional four months is worthwhile he must decide for himself in the light of the cost and the utility to him of the service.

Other Alternatives to Instalment Buying.—Various other alternatives to instalment buying provide some of the services the instalment system gives. Thus one may reduce the consumer's investment and shorten the period required to accumulate either the full price or the down payment by manufacturing goods of lower quality and shorter life. Many manufacturers seem to have followed contradictory policies by trying simultaneously to lengthen the physical life of the wares they sell through improving their intrinsic quality and to shorten their life in use by introducing large elements of fashion into design and hence a faster rate of obsolescence. However this particular contradiction works out, it is clear that some sort of compromise must be made

11 For society as a whole, of course, someone must accumulate the stock of durables under this plan, as under all others.

between building longer life into durables at a cost including a larger investment and holding down the consumer's investment at the cost of a shorter life.

The investment in consumer durables also can be reduced by cheapening the quality in ways that do not necessarily involve shorter life. The so-called "stripped boxes" in the refrigerator trade are an example. Mail-order houses apparently used this way of reducing the consumer's investment in their earliest promotions of some types of durables. Thus as early as 1889 or 1890, Sears, Roebuck & Company offered a sewing machine for as little as $7.65, when such machines as Singer, New Home, and White were selling for around $50.[12]

This way of reducing the investment in durables has had a very limited success for most durables and almost none for automobiles. American consumers apparently prefer to buy a stored-up quantity of what they consider first-rate transportation at second hand than to buy for the same dollar outlay a larger quantity of what they consider to be second-rate new transportation. From time to time merchants in other trades argue that it would be good business to develop a system such that, as with automobiles, a low price would get a good piece of merchandise at second hand rather than lower grade new goods. No one has as yet come up with a workable procedure for accomplishing this result.

Changes of these various sorts, although they may reduce the investment made by consumers, do not necessarily eliminate instalment buying. Presumably the most important limitations upon what the consumer pays for, say, an automobile, are the amount that he can spend out of current income for transportation and the length of the period for which he feels he can safely obligate himself to pay that amount. Instalment buying, the secondhand market, the production of goods of lower quality, and the other possibilities act jointly to bring the expenditure from current income for operation, upkeep, and investment down to where it becomes feasible for any particular income. Instalment buying is thus only one of a group of devices by means of which this end result is accomplished.

Insofar as breaking lump prices into fractions is concerned, saving to pay cash is obviously an alternative to instalment buying. Similarly, the lay-away breaks a large price into small payments. For goods to which it can be applied, a system of breaking large units into small that are then bought for cash one after another achieves this particular objective of instalment buying. For example a seller may divide sets of dishes or silverware into units. The consumer accumulates a full set by purchasing one unit at a time for cash.

[12] L. E. Asher and E. Heal *Send No Money,* pp. 77, 78.

Instalment buying thus does not stand alone and isolated as a tool for consumers. It is one of several devices for reducing and distributing the burdens of waiting and accumulation imposed by durable goods. These several devices overlap and limit each other's expansion. To the individual consumer they represent varying combinations of immediate and postponed consumption, of spending for current satisfactions and for investment in deferred ones, and of expenditures for the satisfactions goods provide and the satisfactions derived from a different timing of consumption. The other ways of handing these problems presumably set limits within which expenditures for the instalment privilege will be held. They are devices through which durable goods can be acquired and used by consumers who find instalment buying too costly or in other ways unsatisfactory for the purpose.

Instalment Buying as a Form of Saving.—The foregoing discussion throws further light on the question whether instalment buying is a form of consumer saving rather than of consumer expenditure. Insofar as the payments run ahead of the wearing out of the goods, instalment buying represents an accumulation of wealth by the consumer. Strictly speaking, the saving is done by the individuals who provide the capital embodied in durables when they are produced. The consumer acquires an interest in an accumulated investment. Whether there is a net increase in saving from the social point of view depends upon what the initial saver does with the payments he receives.

At the outset of this study we saw that the aggregate investments of consumers in durables are very large. They are real investments in that they are accumulations of satisfaction that will be used up in due course. The small ratio of instalment outstandings to aggregate consumer investment in durables indicates that consumers and sellers have followed a conservative policy. They have scheduled payments so far ahead of consumption as to make the successive instalment represent on the average a considerably larger share of investment or saving than of expenditure for current consumption. Instalment buying has thus cut down the investment of consumers in durables to only a limited degree. It has reduced the initial investment the consumer must make rather than the total investment he makes in the end.

To some students instalment buying seems a form of compulsory saving. They argue that many consumers will not—perhaps in a valid sense cannot—accumulate funds to pay lump sums for durables later on. Many such consumers can accumulate a down payment and pay the balance when subject to the discipline of the seller's collection system and the danger of losing goods of which they already have the use.

Signing an instalment contract is for them a way of forcing themselves to accumulate durables goods.

All this is largely conjecture. No one really knows why consumers do what they do or what they would do in the absence of instalment buying. The fact that in such large numbers they seize upon instalment buying as a device for getting durables indicates that they find it useful. Whether they would or would not accumulate in the absence of a comprehensive formal contract is a matter of secondary importance.

Another suggestion is that the instalment plan is a form of saving because it is the consumer's way of amortizing out of income his initial expenditures for capital goods. To this extent it may be considered equivalent to the way in which businessmen gradually reduce their capital accounts by making depreciation charges against current income. The analogy has some merit but is not complete, since the monetary payments required to meet an instalment obligation do not ordinarily come out of either the monetary income earned or the monetary expenditure saved by the capital. True amortization—that is, the accumulation of funds to replace the utilities in goods as they are used up—requires saving separate from that of the instalment payments. It is necessary only if the consumer feels that he must at all times have in hand the full original value of the capital goods he uses or the full value he has accumulated at the time he completes his payments.

Instalment Buying and the Mechanization of Consumption.—In another sense, instalment buying may properly be considered a form of capital investment equivalent to what industry does when it buys machinery. A machine is not merely an accumulation of benefits stored up for future use; it is commonly a new way of doing things. The principal advantage it brings to the buyer may be a substantial reduction in the cost of performing some service or process. Sometimes it introduces a change so great as to constitute a new product or service rather than the improvement of an old one. Thus an automobile is not merely a store of transportation. When compared, say, with a horse and buggy, it is a store of cheaper transportation; it is also a new product providing satisfactions not given by the horse and buggy. Similarly, low-cost furniture, electric refrigerators, and radios reduce the cost and simultaneously change the nature of housing, food, and communication.

The investment to which instalment buying contributes is therefore an incident in the mechanization of consumption that has developed along with the mechanization of production. Although it does not yield direct monetary returns, it expands the return in real satisfactions the

consumer gets from spending his money income and from expending effort in consumption. As such it can often be justified by arguments analogous to those that justify spending large sums for a business or professional machine. Many small enterprises and professional men, entering their trades or professions with little capital, have bought their equipment on instalments in recent years. In this way they can use better methods, reduce their costs, and perform services otherwise impossible to them. Here the contribution of credit has been "to give the debtor possession and control of capital goods and put them at work sooner than if he were to save before he bought; or, stated another way, to give him a greater productive capacity." [13] The argument holds to a considerable extent for the mechanization of consumption.

It is thus not quite accurate to differentiate, as some critics do, between instalment *buying,* where the consumer takes immediate possession and pays for the goods over time, and instalment *saving,* where the consumer accumulates funds until he can pay the full price, meanwhile foregoing consumption of the goods he wants.[14] Either process, when terms are conservative, involves an investment in accumulated satisfactions and commonly in cheaper ways of doing things through mechanization. The decisive differences lie in the timing of the consumption involved rather than in the nature of the process. Accumulation of the price for later consumption requires less monetary outlay than starting to consume immediately and paying on instalments, but delayed consumption has less value simply because the consumer has to wait for it.

Instalment Buying as an Instrument of Sales Promotion.—Whatever else instalment buying may be, there is no doubt that it is and long has been an extremely effective form of sales promotion. To many sellers this is its principal economic function. It is a tool whereby producers and distributors stimulate the willingness of consumers to take durables off the market. In that sense it is something incidental to the product they really want to sell.

Why instalment buying should be so effective as a device of sales promotion is a question concerning which there has been much dogmatic pronouncement, but no systematic study so far as the present author is aware. The potency of the demand for the durables themselves raises no great difficulties. All one needs to understand this is imagination enough to see how isolated, monotonous, and laborious life was in the absence of the goods sold on instalments. The problem that raises difficulties is why the rate of time preference should be so high.

[13] C. O. Hardy, *Consumer Credit and Its Uses,* pp. 143, 144. See also R. Saulnier and N. H. Jacoby, *Financing Equipment for Commercial and Industrial Enterprise,* especially pp. 15–17, 27, 28.

[14] R. W. Babson, *The Folly of Instalment Buying,* p. 87. Babson illustrates instalment saving by the so-called Christmas clubs operated by banks.

Students have made a number of guesses that can perhaps eventually be checked. Thus the very factors that make the demand for durables so strong doubtless make the sense of deprivation heavy when possession is long delayed. If, for example, the possession of some durable is requisite to social acceptance in the consumer's setting, he cannot long postpone it without acute discomfort. The very multiplicity of goods and services offered by modern society may strengthen the emphasis put by consumers upon immediate possession. The consumer may willingly enough forego other things for a quickly available durable, but lose interest when he must do without entirely for a considerable period with available nondurables all about him. Presumably, also, two wars and the intervening great depression have engendered a widespread feeling of insecurity that strengthens the pressure for immediate consumption.

The High Cost of Waiting.—Perhaps we need no very complicated explanation of the consumer's high rate of time preference. There is an important sense in which it is obviously wrong to argue that the consumer who waits to buy until he has saved the price gets the same thing a little later for a lower price. Any waiting period has gone forever when it is finished. The consumer who waits a year or two to start using a car does not catch up the lost consumption. He has simply done without for a year or two. He may find this sacrifice the best choice among the alternatives open to him, but it is a sacrifice and it may be a heavy one.

The fallacy that a consumer catches up with himself when he waits and saves to buy appears in various forms. Thus some writers maintain that a consumer has to save up only once to pay cash. Thereafter he makes cash purchases with no more delay than under instalment purchases.[15] Insofar as consumption is concerned, the cash buyer has irrevocably lost the waiting period and remains that far behind permanently. Similarly, the argument that those who save to pay cash get a substantial increase in purchasing power because they avoid the carrying charge, forgets that waiting is a real cost and release from waiting is a real service. The cash buyer does not increase his purchasing power. He merely buys an assortment of goods and services different from that bought by the instalment buyer.

Whether the period of waiting required under a system of saving to buy for cash is in general long or short lends itself to no single specific answer. The period is longer for some goods than for others, and a given period seems longer to some people than to others. For housing the period is very long. Thoreau, writing before the Civil War when

[15] See, for example, R. W. Babson, *op. cit.*, pp. 10–13.

housing was primitive in many ways by present-day standards, found it somehow shocking that, whereas a savage could get himself a shelter with only a few hours or days of labor, a civilized man "must have spent more than half his life commonly before his wigwam will be earned." [16] For a Thoreau either buying or renting must be a bad bargain, since man can use his life to better purpose than in housing himself. People by and large have made a different choice, however, and, in the light of their choice, one must conclude that not only getting durables but waiting for them is a substantial burden.

The real cost of waiting must be especially great when the particular commodity sought satisfies one of a group of related needs. Postponing the purchase of a suite of furniture may seem not too difficult, but it becomes very onerous if it also means postponing a marriage or the establishment of a separate household by a newly married couple. Again, the choice facing the consumer may be much more drastic than it seems superficially. Perhaps he needs an item of merchandise now because it fits into the current stage of his family's life cycle. Two or three years later may be too late. Although he may appear to decide between borrowing to buy now and saving to buy later, his real decision may be between borrowing to buy now and never buying at all.

Whether many consumers seriously delude themselves as to the ease of making future payments is a tantalizing problem concerning which, so far as the present writer knows, there has been no objective research. The problem does not lend itself easily to formal investigation. Since no one has an infinite income, every consumer must continually make choices. It may very well be that many consumers underestimate the future sacrifices involved in paying instalment contracts. Many critics of the instalment system maintain that most consumers both overestimate the satisfactions to be derived from durables and underestimate the weight of the sacrifices to be made in paying for them. They also say that instalment sellers deliberately encourage this sort of error and rely upon the pressure of conscience, social custom, and legal coercion to keep the consumer paying after he becomes doubtful of his bargain. Since most consumers pay up readily, the criticism probably is not justified for the great majority. This is particularly true since most merchants offer no serious objections to a consumer's skipping a payment now and then when other demands press upon him. There is no reason to doubt, however, that a considerable number of consumers do make this sort of mistake in their forecasts, and that merchants are well advised to exercise some restraint in this situation.

[16] Henry David Thoreau, *Walden* (Modern Library Edition), pp. 27, 28.

CHAPTER 23

THE INFLUENCE OF INSTALMENT BUYING UPON PRODUCTION AND ITS COMPOSITION

Debates over the economic consequences of instalment buying have concerned themselves with three broad problems:

1. The influence of instalment buying upon production and its composition.
2. The influence of instalment buying upon economic fluctuations, and more particularly upon the business cycle.
3. The influence of instalment buying upon family finances.

This and the next two chapters consider these problems in sequence.

The Specific Effects of Instalment Buying.—At the outset it should be pointed out that the specific influence in a complicated social development of any one factor, such as instalment buying, can rarely be separated out with a high degree of precision. For purposes of analysis, economists commonly adopt simplifying assumptions. They assume that any factor under consideration (instalment buying in this instance) is removed from a situation in which it has been present, or that it is injected into a situation from which it has previously been absent. All other variables they assume to be held unchanged. The differences that follow from addition or subtraction of the factor under consideration can be taken as its "effect," in some sense. Under favorable conditions where the requisite data are available, the student may then try to verify or disprove the conclusion by statistical analysis, the nearest he can come in practice to the laboratory techniques of physical science.

This procedure has very limited utility in a study of a factor, such as instalment buying, that apparently plays only a small part in a large situation. The physical volume of production, the business cycle, and patterns of family income and expenditure are huge and intricate economic phenomena. The most that can be done in practice is to make informed and reasoned judgments concerning the possibilities. Very often these do not lend themselves to effective statistical verification. Even if the available data were adequate, which they are not, it is doubt-

ful whether measures could be made exact enough or statistical formulas sensitive enough to separate out very accurately the effects of the single minor factor. Furthermore, the very process of abstraction, of simplifying the situation by assumption, may carry the simplified world under analysis so far away from the actual world of affairs as to prevent refutation or confirmation by appeal to ascertainable facts.[1]

There is also a serious question whether, even in abstract logic, any one factor can properly be pulled out of its environment. The truth may lie in a pattern or configuration that is different from the sum of its parts. Instalment buying is part of a complex of human behavior. It is one of a group of instruments through which large quantities of durable goods have been produced, distributed, and enjoyed. Who can say what humanity would have done in its absence? Who can say it is any more or any less a causal factor than the many other factors that have contributed to the satisfaction human beings have derived from durable goods?

Difficulties of Definition.—Economists also are plagued by difficulties of definition. For example, the term "physical volume of production" is deceptively simple; it denominates the aggregate quantity of goods and services provided by the economy as distinct from the aggregate dollars' worth produced and distributed. In practice, however, goods and services differ so much that they can be added together only as dollars' worth. As a statistical quantity, the physical volume of production thus becomes an aggregate of dollars' worth, with year-to-year changes deflated in accordance with someone's estimate of what has happened to the value of money itself. Even if one assumes that the statistician has overcome the technical obstacles impeding arrival at this point, his problems have not ended. He must determine the significance of changes in the assortment as distinct from the quantity of goods produced, and he must decide how much changes in quantities and assortments tell him about changes in the real or psychic income of consumers. Only then can he come out with a meaningful judgment as to the effects of the factor in which his interest centers—instalment buying.

Similarly, the "business cycle" can be isolated as one element in the welter of economic change only by massive and intricate statistical manipulations. When so isolated and measured, it is likely to be a phenomenon quite different from any one of the cycles analyzed by

[1] For an example of extremely rigorous deductive analysis using the other-things-being-equal approach, see W. P. Mors, *Consumer-Credit Theories: A Historical and Critical Analysis*. It illustrates both the strength and weakness of the method. For an excellent description of the alternative inductive approach to an economic problem and of the difficulties impeding any effort to verify hypotheses established deductively, see A. F. Burns and W. C. Mitchell, *Measuring Business Cycles*, New York, National Bureau of Economic Re-

abstract theorists who work by deductive reasoning through simplifying assumptions. Both types of cycle differ significantly from what the term seems to mean to the nontechnical public. Under any definition the precise place of instalment buying either in the time sequence or in the causal sequence of events is not easily determined.

Finally, concepts of effectiveness in the management of family finances are not easily worked out in terms that permit of measurement. Many of the judgments consumers make turn upon choices that lie outside the areas of pecuniary measurement best suited to statistical analysis. The problem of weighing the consumer's own judgments against the judgments of others as to what is good for him inevitably intrudes. After all this, formidable obstacles impede the collection of any quantitative data from families.

Although these difficulties, in combination, prevent a very high degree of certainty in answering broad social questions concerning instalment buying, they do not force dropping of the whole subject. Much information is available. From it one can draw significant conclusions. Better data may upset them later, but meanwhile they afford the best available bases upon which to evaluate the social consequences of instalment buying and proposals for reform or control.

Instalment Buying as a Stimulant of Production.—The crudest and most naïve description of the effects of instalment buying upon the aggregate volume of production is a simple unsupported statement that instalment buying has enlarged the market and stimulated production of durable goods. The judgment is often based upon nothing more substantial than historical association. Since the growth of instalment buying has gone with a great expansion of output, it is assumed to be the cause of that expansion. Such reasoning has no logical validity but appears often enough to merit mention.

Not acceptable for other reasons is the statement that instalment buying increases production because ostensible consumer goods are sometimes really business goods. Instalment buying of an automobile for use in earning an income undoubtedly enhances production in the same way that any other investment in business machinery enhances production. The statement has no significance, however, for present purposes. The fact that some ostensible consumer credit turns out to be producer credit merely illustrates the difficulty of setting up theoretical categories that correspond neatly with the institutional organization of business. It throws no light whatever upon the effects of true consumer credit, the line being drawn "where the yield of goods is calculated no longer in dollars and cents but in terms of psychic satisfac-

tion and utility."[2] Furthermore, the matter seems to have little practical importance; purchases for business use apparently play very little part in consumer instalment buying.

Debatable, but not particularly important, is the argument advanced by a number of writers that instalment buying increases income because it encourages consumers to work harder. Presumably it stimulates productive effort by making goods of large unit value available to buyers for earlier consumption. Mors doubtless reflects the opinion of most economists in denying the validity of the argument when applied to the completely rational beings who inhabit his assumed world of perfect competition, since they presumably would work to maximize their incomes under any circumstances. He goes on to say that where consumers are not completely rational the argument may have some merit.[3] This concession becomes important when one turns from an economy, simplified for purposes of analysis, to the one in which real people buy and sell actual goods. Furthermore one may wonder whether even a completely rational consumer will not work a bit harder to get satisfactions from both durables and nondurables than he will when his choices must be confined to nondurables alone, or to get immediately available durables rather than a chance to buy durables in an uncertain future. The facts of human motivation are too little known to permit very meaningful judgments. The most one can say is that no strong evidence indicates the existence of any very direct relationship between the degree of immediacy with which goods are available and the degree of energy consumers expend in earning money with which to buy them.

The Influence of Instalment Buying Upon Five Factors Affecting Production.—More substantial discussions of the relations of instalment buying and the volume of production turn upon the effects (if any) this system has upon the factors that determine the economy's output. There is no serious disagreement among economists that in cyclical periods of unemployment instalment buying can lead to an increase in production. Since the repayment phase, under this analysis, tends to have a depressing effect, however, instalment buying over a full cycle may change merely the timing rather than the amount of production. This problem can best be analyzed in Chapter 24 where the cyclical significance of instalment buying comes up for systematic analysis. Here attention can better be directed toward the part played by instalment buying in building up output over the long run to the level about which it fluctuates during the cycle.

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[2] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, p. 19n. Haberler discusses briefly the well-known doctrine that in highly abstract analysis there is no clear line separating consumer and producer goods.

[3] W. P. Mors, *Consumer Credit Theories*, pp. 35–39.

As a beginning toward an analysis, the discussion by Mors provides a convenient framework, although he himself apologizes for talking about the problem at all since he finds little to criticize in the conclusions of what he calls the "classical analysis" concerning each point at issue.[4] He goes into the problem only because he finds that various writers on consumer credit do not, in fact, accept the classical doctrine. Five factors, he argues, ultimately determine the real national income. He considers each in turn to see how instalment buying affects it.

1. *Natural Resources.* Mors passes these over without discussion, since he believes that the credit arrangements made in ultimate sales to consumers have no influence upon them. There is no reason to question this conclusion seriously, although one could perhaps argue that instalment credit is one of the cultural factors that convert natural objects into usable resources.

2. *The Man-hours Worked and the Intensity with Which the Working Force Works.* Here again Mors finds no influences attributable directly to consumer credit. We have no reason to question his conclusion that instalment buying has no identifiable direct effect upon the size of the population, the numbers that go into the labor force, the hours they work, or, as we have seen, the intensity of their effort when they do work.

3. *The State of Technology in the Economy.* Mors argues that instalment buying has no appreciable influence here. If technology is defined narrowly so as to apply to extraction and processing but not to distribution or consumption, the argument probably holds valid. One may well ask, however, whether the instalment system is not itself a contribution to the technology of "production" in the broadest sense, a device invented to do part of the work that must be done if consumers are to use durables. This point will be handled more fully later on. In any event, Mors' reasoning can be accepted as valid only within his narrow definition of production.

4. *The Supply of Capital Saved and Invested.* Mors agrees with various writers that the accumulation of unused utilities in durables is a form of saving, but he notes that what is accumulated is psychic income rather than money or goods that will produce a money income. Even if the storing up of psychic income be considered saving, however, it is in no substantial degree attributable to credit, he holds, since it takes place whether the consumer pays for the goods before he uses them, as he uses them, after he uses them, or even if he never pays for them at all. The most Mors will concede is the existence of some historical evidence to the effect that credit may have caused a larger pro-

[4] W. P. Mors, *op. cit.*, pp. 42-52.

portion of durable goods, as compared with nondurables, to be bought than would have been bought in its absence.

It is, of course, self-evident that whoever incurs the cost of producing durables does the first saving of the utilities they embody regardless of any plan of payment by consumers. It is also self-evident, however, that saving in this sense is only one of a coordinated group of acts by which society produces, distributes, and consumes durable goods as a continuing process. It assumes the existence of mechanisms for moving the goods along to those who want to use them, and for redistributing the burden of the saving, which continues through the period of consumption. Instalment credit, as one of these mechanisms, must be granted some causative significance. Even though it be argued that devices other than instalment credit could have been used, the fact remains that it is the device that has been used. The causative significance of instalment buying in its setting does not disappear because we say that "instalment buying or a workable substitute is necessary" rather than "instalment buying is necessary."

As to saving in the more traditional sense, most economists would agree that, for society as a whole, instalment buying entails some diversion of money into consumption and away from investments designed to produce a money income. It thus entails a reduction in the formation of "productive" capital to levels lower than would exist in its absence. This is not necessarily undesirable. Both types of investment are useful—consumptive investment because it facilitates optimum spending of a money income through time, productive investment because it helps to increase money income through time. The preference of most traditional economists, however, would almost certainly be for productive investment, chiefly because they feel that progress in the sense of continually expanding production is essential to the smooth functioning of modern society and is itself dependent upon the continued accumulation of producer capital. They thus look upon producer goods as useful assets in a sense they deny to consumer durables.

Although the difference between the two types of investment is self-evident, the validity of the preference for producer investment is not so clear. The division of an economy's productive effort between goods for the direct satisfaction of consumers and goods that will eventually increase the output of consumer goods, but involve waiting for this beneficient result, presents society with one of its most elemental choices. What the choice should be, as well as what it will be, depends upon a great many considerations that cannot simply be taken for granted. Nor can one merely assume that society has made the wrong choice because it has moved in a direction the critic does not prefer. This is true particularly when there is reason to suppose that the predilection of the

critic, as in this instance, rests as much upon bias as upon rationality. For there can be no doubt that here arises another example of the effects of economists' tending to put too much emphasis upon pecuniary measurements and too little upon what goes on outside or beyond the market.

5. *The Allocation of Resources Among Alternative Uses.* Here Mors considers the extent to which instalment buying has tended to divert production away from firms that are less subject to long-run decreasing cost and over to those that are more subject to it. He finds no decision possible through abstract analysis from assumed conditions because the conclusion will be determined by assumptions made at the outset as to whether instalment buying leads to changes in the choices of consumers that move resources to or away from the industries most strongly subject to decreasing costs. He accordingly considers the problem historically.

This line of analysis is inspired by the familiar argument that instalment buying has made possible larger sales of durables and in so doing has carried output far up the scale of size and far down the scale of cost. Thus one author estimates that the durables which are sold largely on instalments cost consumers as little as 20 per cent of what they would have cost had they been produced in the quantities that could have been sold for cash.[5] He maintains that this estimate holds good even when allowance is made for the cost of the credit itself.

Mors expresses complete skepticism as to this type of reasoning. He cites the absence of statistical data adequate to yield a conclusive answer to the question whether the firms that sell on credit are any more subject to long-run decreasing costs than those that sell for cash. He also expresses doubts that instalment credit exercises much influence in shifting demands to durable goods characterized by mass production, holding that the growth of durable goods has called instalment credit into being rather than the reverse. Finally he maintains that when instalment credit is available for all durables, it can have no significant effect in shifts of demand from industry to industry.

There is little doubt that most traditional economists would agree with this reasoning. Some of them will concede that instalment buying probably induced consumers to buy some products, such as automobiles, sooner than they would have done in its absence. Even this has a questionable utility, it is argued. By saving to buy, consumers could have bought more rather than fewer cars since they would have avoided finance charges and drawn interest on their money for several months.

This type of argument begs a basic question by assuming that people

[5] M. R. Neifeld, *The Personal Finance Business,* p. 52.

would in fact save to buy cars in the absence of instalment buying. It is not valid to argue that instalment buying had no effect in promoting output because a different device might have had an even greater effect if human beings had been willing to behave differently than they did. Furthermore this argument overlooks the fact that saving to buy reduces aggregate output by shortening the period of each consumer's life during which he consumes durables. In any event it seems best to accept the common-sense view that these analyses have little meaning in the absence of effective ways to test the assumptions upon which the analysts build their arguments. The facts remain that over the years some industries have achieved sharp increases in volume and correspondingly sharp reductions in cost, and that instalment credit has been an integral part of the process by which the result was achieved.

The Influence of Instalment Buying as an Instrument of Sales Promotion.—Even if it be conceded that production has shifted from industries less subject to long-run decreasing cost to those more subject, many economists doubt whether instalment buying played any substantial part in causing the shift. Thus Mors, in addition to arguing that the durable goods brought instalment credit into being rather than the other way around, maintains that claims concerning the stimulation of purchasing by instalment buying arise chiefly from looking at a single industry. When all industries use the system, no one of them will have the advantage.

Mors finds it significant, in this regard, that a statistical analysis of the factors that influence the number of automobiles purchased [6] gives virtually no consideration to instalment buying. This argument is not persuasive; in effect it removes instalment buying as a stimulative factor by assuming that it has already had its effects. When instalment buying becomes freely available to buyers of all durables, it can be treated as a constant in demand formulas. This is a very far cry from saying that it has played no significant part in determining the volume of production as a whole or its distribution among particular products.

The attitude of the economists is in part a consequence of the narrowness of their traditional analysis. We have had occasion to see that instalment sellers almost universally agree that instalment selling is a powerful instrument of competitive sales promotion. Some of them question its social desirability when used for this purpose, but they do not doubt its power. The conventional literature on the economics of instalment buying has largely passed over the importance of instalment buying as an instrument of sales promotion—a device used, in the com-

[6] Presumably General Motors Corporation, *The Dynamics of Automobile Demand*, Detroit, 1939, p. 139. See also C. F. Roos and V. S. von Szeliski, "The Demand for Durable Goods," *Econometrica* (April, 1943), pp. 97–122.

mon phrase, to break down the barriers of sales resistance. Economists have traditionally analyzed instalment buying as a problem in money, credit, or debt. They have ignored it as a problem in merchandising, to be evaluated at least in part as a device for sales promotion, largely, no doubt, because the assumptions of conventional economics include one that human wants are indefinitely and automatically extensible, so that no one has to be persuaded to buy.

The Economic Effects of Sales Promotion.—To business men in the thick of a fight for trade, such an assumption is laughable. They are more likely to think of the instalment system as a promotional device and take their arguments from an analysis such as that Borden has made of advertising.[7] Borden, after a painstaking and detailed analysis of the available evidence, comes to several conclusions that bear on the present study. First, he feels that advertising has little effect upon what he calls primary demand, by which he means the demand for classes or types of product as a whole, as distinct from the "selective demand" for products made by particular companies. This conclusion is reenforced by the suggestion in Mitchell's analysis of retailers' operating results, cited in Chapter 18, that credit service tends to increase the sales volume of the retailers who provide it as compared with those who sell for cash only. Trends in primary demand, Borden believes, must be attributed in the first instance to the characteristics of consumers and to changes in their environment. Advertising merely speeds up an increase or slows down a decrease.

Second, as to the influence of advertising on costs of production, Borden comes to no settled conclusion. In industries that have experienced concurrent reductions in cost, growth in size, and growth in their use of advertising, he can find no clear causal relationship between the decrease in cost and the increase in advertising. Some industries and some companies have achieved large volume with heavy advertising, others without it. Furthermore, an increase in the scale of operation does not always yield economies in production; there are a good many examples of relatively small plants that enjoy low costs. Borden thus comes tentatively to a position much like that reached by Mors on this point. Since he finds the situation to be analyzed intricate, and the cost data available from business inadequate for the analysis, he concludes that he must withhold a final judgment. Here again the part played by credit in enlarging the volume and reducing the cost of retailing, as distinct from manufacturing, should not be overlooked, and Mitchell's data once more become pertinent.

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[7] N. H. Borden, *The Economic Effects of Advertising,* especially p. 837–886.

Third, if improvement of the quality and range of products offered consumers is to be considered an increase in production, Borden is not sure as to the extent of the effects of advertising and aggressive selling.

> The part of advertising and aggressive selling here has been indirect, but nevertheless real and important. These two forces have played an integral part in a free enterprise system that has given a growing, dynamic economy. . . . Advertising and aggressive selling have had their most direct and important influence in widening the range of merchandise through the part they play in stimulating product differentiation among brands. . . . Businessmen have placed upon the market many product differentiations that have appeared trivial and foolish to many people, but out of the process has come a remarkable product advancement.[8]

Borden emphasizes the part advertising and aggressive selling have played in stimulating the enlargement and improvement of productive equipment. Although these forces have not themselves contributed directly to the changes in technology and the increase of investments in productive facilities that constitute the improvement of the country's productive machine, he holds that indirectly they have had a great influence. They have not in themselves "been the causes of the launching of new enterprises or of the expansion of old, but they have been important elements whereby the new or enlarged enterprises might hope to gain a profitable demand." [9]

Borden's case for advertising thus comes down essentially to the point already made above by the present writer. Sales promotion helps expand production as an essential element in the social institution responsible for that growth. Its part is not determinable with precision. It may not be indispensable in the sense that society has no alternative devices for achieving its effects. It has, however, been the device used, as such it deserves its share of the credit.

Insofar as instalment buying is a form of sales promotion, it too must share the credit or blame for what has happened, and many producers and distributors do use it as a form of sales promotion. This is why some of the largest producers have gone to great pains to set up financing agencies to serve their distributors. It is probably the principal reason why many retailers are determined to keep instalment financing in their own hands rather than let it be taken over by banks, finance companies, and other cash lenders. In time, the institution of instalment buying may develop to where it is so freely available as to offer no differential advantages to individual retailers or manufacturers or even to industries. Under such circumstances the retailer may be happy enough to transfer the whole burden to financial agencies. Even then,

[8] Borden, *The Economic Effects of Advertising,* Richard D. Irwin, Inc., 1942, p. 866–868.
[9] *Ibid.,* p. 870.

however, one would be mistaken to slight the part played by instalment buying as a device of sales promotion in bringing the situation up to that level.

Conclusion as to the Influence of Instalment Buying on Aggregate Production.—The over-all conclusion to which Mors comes after looking at the influence of consumers upon the five factors he lists as determining the product of the economy is as follows:

> The foregoing analysis on the whole supports the classical conclusion that consumer credit does not under theoretical conditions augment the production of an economy, that is, its real national income through time. To the extent that consumer credit permits those outside the exchange mechanism to do their work more efficiently, to the extent that the energy released becomes work time rather than leisure time, and to the extent that consumer credit shifts resources to industries peculiarly susceptible to long-run falling costs, the conclusion must be modified. For the reasons already given, this modification, historically speaking, has probably been negligible. Against any increase in production from the above chain of events must be set the much greater production which would have resulted had the money saving been diverted instead to productive investment.[10]

The comments already made indicate the nature of the principal weaknesses of this conclusion. In talking about "theoretical conditions," by which he means a completely rational economy of pure and perfect competition, Mors removes himself rather far from the actual world. Similarly, when he confines himself largely to production measured in money, he cuts himself off from a large area of nonmonetary behavior that includes important aspects of instalment buying. In taking for granted the institutional framework within which the economic machine works, one must guard against assuming that elements of that framework have no causal importance. Elements singled out for abstract analysis tend to assume an undue importance simply because they are singled out. Mors does not fully guard against this mistake. Similarly, he seems to slip, now and again, into assuming that consumer credit has no causal significance because it is only one of several devices humanity could have used for the purpose. Finally, it is only too easy to conclude that a given device has no causal significance by forgetting that the simplifying assumptions already allow for the influence of the device in question. Thus when Mors assumes the existence of a marketing technology and institutions that move durables into consumption before he talks about "production," he in effect assumes that instalment buying has done its work. The precise, painstaking logic used by such a thinker in his "theoretical" world may appeal to the abstract

10 Mors, *op. cit.*, p. 52.

analyst because it is tidy, but it achieves tidiness only by ignoring a great deal of dust swept under the corner of "other-things-being-equal."

Businessmen who struggle to sell durables, and especially those who live by instalment selling, no doubt tend to exaggerate the influence of instalment buying. One must also conclude, however, that professional economists, caught like all human beings in their own set of conventions and traditions, tend to slip too easily into acting as though what they assume to be true for purposes of analysis is true in fact and so to underestimate the influence of instalment buying. A middle ground seems more sensible. One must conclude that, taken in its setting, instalment buying has been neither overwhelming nor negligible as a factor in the growth of production, but has been one of the important instruments used to accomplish it.

Instalment Buying and the Purchase of Intangibles.—Two problems touched at various points in this discussion of production need some further attention. These are the effects of instalment buying upon the distribution of production over different goods, and its effects upon the distribution of production over time. It seems to be generally agreed among economists that, even if the aggregate product of the economy remains unchanged, instalment buying in an imperfect market, and possibly in any market, can change and has changed both its composition and its timing. Several questions arise as to the significance of this change in addition to those already considered.

As to the effects of changes in the assortment of goods, we should note again the accusation frequently made by writers who dislike instalment buying that the apparent change in the assortment is really a reduction in the amount. They commonly put it that instalment buyers get present purchasing power at the expense of future purchasing power. Since the service costs something, the net effect is a smaller aggregate of goods purchased over time.[11]

This argument is so obviously weak that it deserves attention only because it appears frequently. In its crudest form it maintains, in effect, that the consumer loses purchasing power when he buys an intangible rather than a physical product. In more technical terms, the consumer buys something when he buys form utility but buys nothing when he buys time utility or possession utility. No prolonged analysis is needed to know that this position is not tenable. As an argument against instalment buying it is untenable even when it takes the form of arguing that consumers buy more time utilitv than they really want be-

[11] Conspicuous examples of this reasoning may be found in R. W. Babson, *The Folly of Instalment Buying*, pp. 20, 21, 79, 80; R. B. Westerfield, 196 *Annals of the American Academy of Political and Social Science*, pp. 102–105 (March, 1938); J. R. Sprague, *The Romance of Credit*, p. 163; and C. S. Wyand, *The Economics of Consumption*, p. 256.

cause merchants deceive them as to the cost of instalment buying. There is no reason to believe fraud and deception to be any more common in the sale of instalment credit than in the sale of physical commodities themselves.

The argument is not self-evident even when put in the form of a statement that consumers can buy more physical goods if they avoid carrying charges by saving to pay cash. It is by no means certain that consumers who save up can buy more cars than those who buy on instalments. If all goes well, the saver will have more money to put on the physical car when he completes his saving than when he started. Meanwhile, as we have already pointed out, he has passed a year or two without buying a car. He never catches up the year or two of car usage he has denied himself. Whether the increase in the amount of money available will fully make up for the effects of the time lost on the physical quantity purchased can only be guessed. Furthermore, it must be remembered that in many years the accumulation of money will be offset in part if not entirely by price increases.

The feeling that part of the consumer's purchasing power evaporates when he buys an intangible is a bias encouraged by a tendency of long standing to use physical goods and the physical processing of goods as examples of "production" for purposes of analysis. It is supported by a feeling that too many consumers buy "luxuries," or "nonessentials" such as instalment credit, when they have too few "necessities." In substance these arguments amount to little more than an attempt by the critic to substitute his judgment for that of the consumer in deciding how best to allocate a limited income. Such a critic often feels that the consumer has no business buying expensive durables at all, and the strength of the sentiment grows markedly when the consumer not only buys such goods but can also be accused of being willing to sacrifice some of them so as to obtain immediate consumption. This problem has come up at various points in this study and will come up again. Here it is sufficient to assert, somewhat dogmatically perhaps, that the location of the line between the "necessities" and "luxuries" differs for individual consumers, and by most consumers can best be decided for themselves.

Instalment Buying and Consumer Purchasing Power.—The problem of the influence of instalment buying upon the timing of production overlaps the problem of its influence upon the amount and variety of production chiefly because of debates over how instalment buying affects consumers' purchasing power.[12] Many writers have reiterated the statement that in the long run instalment credit makes no addition to

[12] The cyclical aspects of this problem will be considered in Chapter 24.

the purchasing power of instalment buyers. What they borrow now they must repay later.

This statement seems so obvious that one notes with some surprise how many writers slip into statements indicating a belief to the contrary. Thus Seligman says that instalment buying increases production through increasing the purchasing power of the consumer. A legislative committee in Massachusetts reported that instalment credit permits a great many people "to use, enjoy, and own articles otherwise beyond their reach." Cragg remarks that consumer credit of all types adds 50 per cent to cash buying. Wyand states that in the absence of instalment buying the majority of the population could buy only some of the necessities and few of the comforts of life because of limitations on their incomes. Kelso reports that one third of the American families have incomes so low that they must live beyond their means, and he intimates that they find the answer in credit.[13] Careful reading, it is true, will modify the impression created at first glance by these statements. The fact remains that many commentators spread the idea carelessly, or because they know no better, that instalment credit is in some sense a real addition to purchasing power.

The Acceleration of Purchasing Through Instalment Buying.— What is sometimes called an increase in purchasing power due to instalment buying can better be described as an acceleration of purchasing. Even this phrase must be used with discretion. Confusions arise because when one places instalment buying in time he must consider at least six different elements: (1) the setting aside of the payments by the consumer; (2) the entry of the transaction on the books of the seller; (3) the transfer of possession from seller to buyer; (4) the receipt of payments by the seller; (5) the transfer of title from seller to buyer; and (6) the consumption of the product.

On the assumption that paying on instalments and saving to pay cash proceed at the same rate, the purchaser devoting the same amount from each pay check to the purpose, there will be no difference between the two purchases as regards the times when the purchaser sets aside his payments and the seller transfers title to the buyer. The entry of the transaction on the seller's books, the transfer of possession from seller to buyer, the receipt of payments by the seller, and both the beginning and the ending of consumption would be moved forward substantially under instalment buying as compared with cash buying.

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13 E. R. A. Seligman, *The Economics of Instalment Buying,* Vol. I, pp. 295–299; Massachusetts, *Report of the Special Commission Established for the Purpose of Making . . . an Investigation of the Laws Pertaining to Instalment and Conditional Sales of Personal Property and Related Matters,* 1942, p. 13; A. Cragg, *Do You Need Some Money?,* pp. 84, 85; C. S. Wyand, *The Economics of Consumption,* pp. 250, 251; and R. W. Kelso, 8 *Law and Contemporary Problems,* p. 22 (Winter, 1941).

What commentators seem to have in mind when they speak of either the expansion or the acceleration of purchases or consumption made possible by instalment buying is some combination of these four movements forward in time. Ordinarily they seem to have most specifically in mind the speeding up of the entry of the transaction on the seller's books, which is conventionally called the "sale" or the "purchase."

This convention is important because, as we shall see in Chapter 24, analysts of the business cycle tend to take the entry of the sale on the retailer's books, which is readily measurable statistically, as the point at which instalment buying exerts its principal effect upon the ebb and flow of "general business." This idea will be discussed more fully there. For present purposes, where the nature of the acceleration caused by instalment buying is the center of interest, it is necessary to note that pushing ahead in time the transfer of possession from retailer to consumer (which usually coincides closely with the entry on the books) pushes ahead all the preceding processes of production. This is not a cyclical movement but an institutional change. Adoption of the instalment system in an economy previously without it brings forward in time all the long chain of processes involved in production, distribution, and consumption. Once the system has been adopted and brought to full maturity, it keeps all the successive processes advanced in time or accelerated. This is the service it is set up to perform.

It should be emphasized that the acceleration achieved through the instalment system does not make the timing of the successive steps any more irregular than do cash payments. Under either plan the seller sells his "lump" of goods to a consumer and must wait to sell another "lump" to the same consumer until the goods have worn down to where replacement is required. Under either plan the buyer foregoes other purchases while he accumulates the price. The essential difference between the two is that, for the consumer, each successive point in the economic events leading up to and including consumption is a few months or even a year or two ahead, under the instalment plan, of where it would be under the cash plan. Acceleration in this sense must be differentiated carefully from the lumping of satisfactions implied by durability, the influence upon rates of production exerted by the accumulation of a stock of durables as distinct from replacement of an existent stock, and the influence of variation in the ways the banks can finance the system. Failure to differentiate these various elements as they should be is an important reason for the existence of confusion in traditional discussions of the influence of instalment buying upon purchasing power and upon economic fluctuations.

It is important to remember that the acceleration of purchasing here discussed is a simple comparison of the timing of events in the produc-

tion and consumption of the same goods under two purchase plans. The underlying assumption that the absence of credit would change the timing of goods bought, but not the assortment, is probably not wholly valid. There is little doubt that in the absence of credit some consumers would buy other goods than durables rather than save to buy later, and a few might divert their savings into "productive" investments.[14] The effect of instalment buying in accelerating the aggregate entry of transactions on retailers' books by all consumers for all kinds of goods would therefore presumably be different from the effect on durables considered separately.

Quantitative Importance of the Acceleration of Purchasing.—The most direct measure of the acceleration of purchasing and consumption achieved through instalment buying lies in figures such as those given in Chapters 2, 3, and 13 on average or typical terms and on the proportions of various goods bought on instalments. Some light also is thrown on

TABLE 56

PERCENTAGE DISTRIBUTION OF GROSS INCREASE, GROSS DECREASE, AND NET INCREASE IN INSTALMENT DEBT FOR NONRELIEF FAMILIES, AND OF THE AGGREGATE INCOME OF ALL NONRELIEF FAMILIES, BY INCOME LEVEL, 1935–1936

Income Level	Gross Increase[a]	Gross Decrease[b]	Net Increase[c]	Aggregate Income[d]
Under $ 500	2.8	1.3	3.7	1.9
$ 500– 750	4.9	3.1	5.8	4.0
750– 1,000	8.0	6.1	9.0	6.6
1,000– 1,250	11.5	9.0	12.7	8.3
1,250– 1,500	11.1	10.4	11.5	8.3
1,500– 1,750	11.2	11.2	11.2	8.2
1,750– 2,000	12.0	11.4	12.3	7.5
2,000– 2,500	15.6	16.0	15.5	11.8
2,500– 3,000	9.0	10.9	8.0	8.0
3,000– 4,000	6.9	9.8	5.5	9.0
4,000– 5,000	2.5	3.8	1.7	4.0
5,000 and over	4.5	7.0	3.1	22.4
All levels	100.0	100.0	100.0	100.0
Estimated amount (in millions)	$620.9	$213.3	$407.6	$44,359.9

[a] Gross increase equals the sum of the increases in instalment debt for families having net increase in such debt.
[b] Gross decrease equals the sum of the decreases in instalment debt for families having a net decrease in such debt.
[c] Net increase equals gross increase minus gross decrease.
[d] Based on unpublished data obtained from the National Resources Committee on the distribution of aggregate income for nonrelief families, 1935–1936.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-2, p. 125.

[14] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, Appendix A, discusses these possibilities in some detail.

the extent to which instalment credit permits consumers to spend their income in lumps by data compiled in the consumer expenditure studies of 1935–1936 and 1941. These data permit computation of figures that show the relative importance of instalment credit received, and credit repaid during these years, to income received. We shall see that they have some importance in evaluating instalment buying as a factor in the business cycle. They also have some significance for present purposes.

Miss Bernstein, in Tables 17, 18, and 56, estimates that in 1935–1936 the aggregate annual income of the 24.9 million nonrelief families in the United States was $44.4 billion. The 4.1 million families who received more than they paid for on instalments including both cash and sale credit had an aggregate annual increase of $621 million from this source in their expenditures as conventionally defined. The 1.8 million families who paid back more than they bought on instalments had an aggregate annual deduction from their expenditures of $213 million. Setting the two against each other leaves for all nonrelief families a net addition, from this source, of $408 million to their expenditures.

TABLE 57

AVERAGE INCREASE IN INSTALMENT DEBT OF NONRELIEF FAMILIES INCREASING SUCH DEBT, AVERAGE DECREASE IN INSTALMENT DEBT OF NONRELIEF FAMILIES DECREASING SUCH DEBT, AND RATIO OF AVERAGE INCREASE AND OF AVERAGE DECREASE TO AVERAGE INCOME, BY INCOME LEVEL, 1935–1936

Income Level	Average Increase	Ratio of Average Increase to Average Income[a]	Average Decrease	Ratio of Average Decrease to Average Income[a]
Under $ 500......	$ 72	23.1	$ 38	12.2
$ 500– 750......	87	13.9	54	8.6
750– 1,000......	100	11.4	60	6.9
1,000– 1,250......	124	11.1	79	7.1
1,250– 1,500......	132	9.7	102	7.5
1,500– 1,750......	154	9.6	118	7.3
1,750– 2,000......	181	9.9	141	7.7
2,000– 2,500......	195	8.8	157	7.1
2,500– 3,000......	216	7.9	190	7.0
3,000– 4,000......	234	6.9	215	6.3
4,000– 5,000......	284	6.5	252	5.7
5,000 and over....	336	3.9	411	4.8
All levels........	$151	9.3	$122	7.5

[a] The average income in each class was derived from unpublished data on consumer incomes, 1935–1936, obtained from the National Resources Committee, as follows: The aggregate income received by nonrelief families was divided by the total number of such families in each income class. The average income for the $5,000-and-over group represents the average for families with incomes between $5,000 and $20,000.

Source: B. Bernstein, *The Pattern of Consumer Debt, 1935–36*, National Bureau of Economic Research, 1940, Table A-6, p. 129.

Table 57 shows the same information converted to a per-family basis. The average net increase in expenditures, made possible by instalment credit for families who borrowed during the year, was $151. The average decrease among families who reduced their indebtedness was $122. The average increase represented 9.3 per cent, and the average decrease represented 7.5 per cent of the average income of these families. Table 57 also shows that the dollar amount of instalment debt per family varied directly, but not proportionately, with the level of income. The average increase rose from $72 at the under-$500 level to $336 at the $5,000-and-over level, and the average decrease rose from $38 to $411. These figures must be kept in mind in considering the significance of the distribution of users of instalment credit shown in Table 18. Insofar as dollar volume of instalment debt is concerned, consumers at upper levels of income are considerably more important, and those at the lower income levels considerably less important, than their number alone would suggest.

In his analysis of similar data for urban consumers in 1941, but restricted to sale credit, the present writer obtained the figures in Table 58. They show again that the average instalment purchase rises sharply as average incomes rise. Consumers with incomes under $500 who used the instalment buying system made purchases averaging $59. At the opposite extreme, consumers with incomes of $10,000 or more who bought something on instalment averaged purchases of $847. The difference, doubtless, reflects the tendency of low-income families to buy goods of relatively low unit value, notably the lower-priced radios and furniture rather than automobiles and electric refrigerators, and to make those purchases in the cheaper grades or secondhand markets. On the other hand, families at high-income levels tend to buy goods of relatively high unit value.

Relative Importance of Instalment Debt at Various Income Levels.—Computed as relatives, these figures throw further light on how instalment credit affects the purchasing power of consumers. Table 57 shows that although the dollar size of the debt incurred increases as income rises, its importance in family budgets drops sharply. Thus the average increase of $72 in the instalment debt of consumers whose income averaged less than $500 was 23.1 per cent of the average income of nonrelief families, whereas the $336 average increase at the level of $5,000 income and over was 3.9 per cent of the average income at that level. Evidently the amount of lumping that instalment buying permits is very considerable at lower levels of income. Here also is evidence as to why many consumers need long terms if they are to buy at all. Finally, the table indicates that consumers and retailers exercise some

TABLE 58

COMPARISON OF INCOME, EXPENDITURE, AND INSTALMENT PURCHASES OF INSTALMENT AND NONINSTALMENT USERS, BY INCOME GROUPS

Item	Under $500	$500 and under $1,000	$1,000 and under $1,500	$1,500 and under $2,000	$2,000 and under $2,500	$2,500 and under $3,000	$3,000 and under $5,000	$5,000 and under $10,000	$10,000 and over
Average income of—									
Units buying on instalment	$371	$765	$1,275	$1,784	$2,300	$2,750	$3,741	$5,585	$12,335
Units not buying on instalment	309	734	1,252	1,742	2,241	2,748	3,738	6,403	14,794
Difference	62	31	23	42	59	2	3	818[a]	2,459[a]
Average expenditure of—									
Units buying on instalment	413	853	1,374	1,850	2,402	2,760	3,668	5,301	7,921
Units not buying on instalment	451	757	1,257	1,631	2,073	2,602	3,339	5,034	10,922
Difference	38[a]	96	117	219	329	158	329	267	3,001[a]
Units buying on instalment:									
Excess of average expenditure over average income[b]	42	88	99	66	102	10	73[c]	284[c]	4,414[c]
Units not buying on instalment:									
Excess of average income over average expenditure[b]	142[d]	23[d]	5[d]	111	168	146	399	1,369	3,872
Average purchases on instalment	59	131	160	219	401	350	481	447	847
	COMPARISON OF ITEMS OF INCOME AND EXPENDITURE (in percentages)								
Instalment users compared with noninstalment users as to—									
Average income	120.1	104.2	101.8	102.4	102.6	100.1	100.1	87.2	83.4
Average expenditure	91.6	112.7	109.3	113.4	115.9	106.1	109.9	105.3	72.5
Excess of expenditure over income of instalment users, as per cent of average instalment purchases	71.2	67.2	61.9	30.1	25.4	2.9	[c]	[c]	[c]
Average instalment purchases as per cent of excess of expenditure of instalment users over that of noninstalment users	[a]	136.5	136.8	100.0	121.9	221.5	146.2	167.4	[a]
Average instalment purchases as per cent of—									
Average income	15.9	17.1	12.5	12.3	17.4	12.7	12.9	8.0	6.9
Average expenditure	14.3	15.4	11.6	11.8	16.7	12.7	13.1	8.4	10.7

[a] Average greater for noninstalment than for instalment group.

[b] Differences of less than one per cent between incomes and expenditures are not significant, since acceptable schedules were allowed a balance difference up to 5 per cent. The balancing difference is the discrepancy between the reported receipts and disbursements. For all urban consumer units, disbursements were $19 in excess of income, or less than 1 per cent.

[c] Average income exceeds average expenditure.

[d] Average expenditure exceeds average income.

Source: R. Cox, *Installment Buying by City Consumers in 1941*, p. 14.

prudence. As their incomes rise (and so presumably their power to buy the goods sold on instalments), they reduce rather than increase the part played by instalment debt in their buying.

Table 56 shows some additional effects of instalment credit upon purchasing power at different income levels. From 80 to 90 per cent of the influence exerted upon purchasing power by instalment credit (when measured by dollar volume) was exerted at income levels below $3,000 which (in the aggregate) accounted for less than 65 per cent of the income of the country's nonrelief families. It was in the income classes from $1,000 to $3,000, however, that instalment buying finds its greatest concentration rather than in the very lowest income classes.

The present author reached similar conclusions in his analysis of the 1941 data on spending and saving by city consumers:

> More than 50 per cent of the instalment buyers have incomes between $1,000 and $2,500. These are not poverty-stricken families which must be supported in whole or in part by relief or charity; they are the lowest income groups among the self-supporting. In that sense, instalment credit can properly be called "the poor man's charge account." It is not a substitute for an inadequate income; neither is it without utility to the well-to-do and the wealthy. The majority of its users, however, are people who can offer as security for credit only the facts that they are earners and good moral risks; thus they find it difficult, if not impossible, to obtain the kind of credit which depends in large part on property and social position.[15]

Instalment buying is not a form of magic that enables its users to spend more than they receive in the long run. It does permit greater flexibility in spending as regards the size of the lump of utilities these consumers can buy without foregoing an intolerable proportion of their present satisfactions, but it is not a substitute for an income too small to let people have what they want. The man with a marginal income remains on the margin despite having access to credit. Careless statements to the contrary are not valid. Except for those people who receive gifts or are supported by others, a rising level of living comes from a rising level of income. Instalment buying is only a device by which the consumer uses the income he has to get what he wants most into his possession as soon as possible.

Instalment Buying and the Content of Living.—Considerably more difficult to evaluate than the effects of instalment buying upon the quantity of the economy's product is its influence upon the content of the consumer's living. Difficulties arise here because we must deal with imponderables, such as human motivation, satisfaction, and choice. The central problem to be solved is: Does instalment buying tend to help or

[15] R. Cox, *Installment Buying by City Consumers in 1941*, p. 3.

to hinder the consumer's efforts to maximize the satisfactions his income provides? The standard to be applied has been described by one well-known economist:

> Broadly speaking, consumption comprehends what is used, while living is more concerned with the net outcome in relation to deep-seated cravings, basic needs, and other wants. . . . The most important single concept in this field is often reasonably called the plane or level of living. The word "content" better suggests a more than two-dimensional quantity, something in which composition and quality as well as size are important, and something to which one can apply not merely the adjectives high-low, but also such others as superior-inferior, expensive-thrifty, elaborate-simple, and ample-restricted. "Improving the content of living" is much more meaningful than "raising the plane of living." [16]

Any evaluation of the effects of instalment buying upon what consumers get out of life, upon their real income, is essentially an effort to decide what it adds to or subtracts from the content of living in that sense.

The Maximizing of Psychic Income.—Various aspects of the contribution of instalment buying to the content of living already have been covered at several points in this study. It makes its contribution primarily through reducing the investment in unused utilities a consumer must make when he acquires durables, and through bringing forward in time the period during which a durable is consumed. Over and above these specific contributions, it deserves some share of the blame or credit for the satisfactions people derive from durables because it has been in practice the device millions of them used to acquire durables. Presumably it is the cheapest and easiest way open to the consumer to get prompt access to utilities that come in lumps embodied in relatively costly instruments. Presumably also, if we take the consumer as the best judge of his satisfactions, those offered by the durables in question are the ones he wants most avidly among the ones available to him.

Mors, again using his rigorously abstract methodology, comes at the problem differently.[17] He first undertakes to see how instalment buying would affect matters in his assumed world whose inhabitants are completely rational and informed, where the market is absolutely free, where each individual has a fixed income, where all goods are available in units small enough to permit every consumer to add as much or as little of each as he wishes during an income period, where there are no large-unit and no durable goods, and where there is a continuous allocation of resources and imputation of income to resources in infinitely small increments. Then he drops his limiting assumptions one after an-

[16] J. S. Davis, "Standards and Content of Living," 35 *American Economic Review*, pp. 5 and 7 (March, 1945).
[17] W. B. Mors, *Consumer Credit Theories*, pp. 17–42.

other until he arrives at the "actual" world. Anyone interested in the details of his subtle and intricate reasoning is referred to the original. For the present it is enough to summarize the conclusions to which he comes. These are as follows:

1. In the "theoretical" world from which he starts, this form of consumer credit increases the psychic income of its users by permitting them to make the optimum arrangement of their expenditures over time.
2. Under "actual" conditions the results "are about the same, although in the nature of the case economic analysis can no longer be so definitive." [18] Even after allowance is made for abuses and for inadequacies in the information of buyers about charges and contracts, it must be assumed that most consumers will use credit in a manner beneficial to them.

To the present writer it seems that the instalment system contributes to psychic income not so much by making the arrangement of *expenditures* over time more satisfactory to the buyer, as by making for a more satisfactory arrangement of *consumption* over time. In this regard it is a device set up to overcome the economic frictions or imperfections implicit in two sets of facts: First, that manufacturers can supply the satisfactions provided by durable goods only in lumps or bundles. Second, that there is no automatic and necessary coincidence in the timing of the consumer's need for the services provided by the goods, the receipt of his income, and his formal acquisition of title to the goods. Instalment buying finds its primary utility in overcoming the first of these frictions and making it possible for consumers to buy these lumps. It plays a very important part in influencing what is bought and consumed, as well as when. It is first of all an instrument for the acquisition and use of durables, and only secondarily a device to control the timing of the various steps involved.

The Influence of Instalment Buying on Consumer Acceptance of New Products.—Insofar as instalment buying is an effective device of sales promotion, it makes another contribution to psychic income through its influence upon *what* as distinct from *when*. Economists at work with their assumed frictionless world tend to think of consumers as always eager to seize and use new products. Enough of this idea trickles over into their views of the actual world to make them forget that real consumers usually must be persuaded to accept new things they will come to like very much later on. The true income to consumers is, of course, the flow of enjoyment derived from these goods; but before

[18] *Ibid.*, p. 41.

consumers can get this income they have to be persuaded to accept and learn how to use the goods themselves. Given an imperfect market, instalment buying has helped to break down the barriers, and has thus contributed to enlarging the consumers' real income.

Resistance to new products probably has not been quite so widespread or so persistent as might be inferred from extreme statements by defenders of sales promotion. The resistance is real, however. Consumers, left to themselves, seem to be very well satisfied with established ways of doing things, and the contribution of the instalment system as an instrument of sales promotion has not been negligible.

That people have accepted something does not prove, of course, either that it is good for them or that they can afford it. As we have seen, instalment buying can be and has been criticized for confusing people into thinking they want something they don't really want simply because it is easy to take out of the store. Insofar as such criticisms are based upon differences in taste, they are mere expressions of bias and have no substantial economic meaning. Insofar as they are criticisms of people with small incomes and meager lives by the well-to-do and comfortable, they are unimaginative and often cruel. Miss Lawrence's fictional characters give a truer picture:

> We were just beginning to live, he reflected wistfully, when the depression set us back. A little leisure for women, or, if not leisure, a lightening of their physical labors, a chance for a man's kids to make a better record than he had hung up. . . . What she and Mark really wanted, of course, was to be a part of the national scene. . . . Everyone who was anybody at all had a car. Intolerable, not to be anybody at all.[19]

It is easy to belittle such ambitions, especially if one has already gratified them, and to bemoan the persistence with which people reach beyond their grasp. It is not so easy to deny that any device which extends to such groups even a little aid in achieving their desires has contributed heavily to the real income of its users.

The Mechanization of Consumption.—Another way in which instalment buying contributes to the real income of consumers has received surprisingly little attention. This is the way in which, as we saw in Chapter 22, it has contributed to the mechanization of consumption. In so doing it has helped reduce the effort required to obtain satisfactions out of the use of goods and released energies for the acquiring of additional benefits. The facts that the benefits are psychic rather than monetary, and that they are obtained in the ill-defined world of con-

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[19] *If I Have Four Apples*, Copyright, 1935, by Josephine Lawrence, published by J. B. Lippincott Co.; pp. 23, 46, 47.

sumption rather than in the open market, does not warrant one's ignoring their reality.

The problem of measurement is extremely difficult. Occasionally there may be monetary savings, as in the familiar statement that one will save the cost of the refrigerator in the ice bill. Insofar as the mechanization of consumption reduces waste in this specific way, it frees effort and monetary income for the production and acquisition of other goods. If the refrigerator reduces the waste of food, obviously it makes possible an increase in some other category of consumption—a new suit, perhaps, or a better diet or a long vacation. Much less tangible, though nonetheless real, is the real income derived from substituting supervision of an automatic washer for hours of labor over the tubs, or from expanding an isolated farmer's world with a car and a radio. Such goods perform functions for consumers similar to those capital goods perform for business.

It can be argued, of course, that these results are achieved by someone's saving the necessary accumulation of capital, not by instalment buying. The specific contributions of instalment buying are that it makes possible earlier acquisition of capital goods by the consumer and reduces the total investment the consumer must make. It helps decide who gets the goods and when he can start using them, but it does not contribute to their creation.

Within limits this general line of reasoning is valid, but the limits are narrow and important. Breaking a social device into parts is a useful analytical procedure but does not change the fact that the situation is something more than a combination of separable parts. Durable goods are produced in an economic sense only when they have been manufactured and distributed. As compared with other devices for getting such goods into consumers' hands, instalment buying offers the particular advantage (among others) of earlier possession and use, but it shares with all the other devices the common task of giving the consumer possession and ownership.

Widening the Range of Consumer Choice.—Instalment buying contributes to consumers' real income, finally, by offsetting the imperfections of the actual world in at least two ways. First, it shares with other forms of consumer credit, and with consumer saving, its operation as an instrument that helps the consumer to meet his needs when they are most pressing whether or not the timing coincides with his receipt of an appropriate amount of income. Its particular characteristics make it suitable for some situations and not for others, but here again it would be a mistake to slight the contribution it makes in common with other

forms of consumer credit and insist that its individual contribution is the only one it makes.

Second, instalment buying widens the range of choice open to the consumer in acquiring durable goods. He is still free to accumulate what he can from current income until he has the full price of the goods he wants. By purchasing the goods, he then commits the amount saved to some specific group of satisfactions he will receive over a fairly long period. While he accumulates the price, he can change his mind as often as he likes about what he wants. Instalment buying adds another alternative. By committing some part of his future income to this specific choice of satisfactions, immediately he moves the consumption forward in time.

There is no single rule to be applied in deciding whether bringing the consumption forward in time increases the consumer's real income. What the consumer does is to buy more credit service and less of something else. The credit presumably increases his real income (that is, his flow of satisfactions) because consumers buy it regularly. To argue otherwise is to say that consumers in the aggregate persistently and consistently misjudge cost and satisfactions, a position not easily defended.

CHAPTER 24

THE INFLUENCE OF INSTALMENT BUYING UPON ECONOMIC FLUCTUATIONS

Of the various broad economic problems raised by instalment buying, its influence upon fluctuations in general business is the one that has received the most attention recently from professional economists. It is, nevertheless, only one of many topics that a study of the economics of instalment buying must cover. Furthermore, as we shall see shortly, the weight of the evidence indicates that instalment buying plays a relatively small part in economic fluctuations. For these reasons the space given to instalment buying and the business cycle in the present study has been restricted sharply.[1]

Cyclical Fluctuations in Instalment Buying.—The tables cited in earlier sections of this study make it plain that at least between 1929 and 1941 instalment buying fluctuated widely in sympathy with the ebb and flow of general business. Tables 7 and B-3, for instance, show that both the aggregate volume of sales on instalments and the aggregate outstandings under instalment contracts fluctuated widely from year to year. As Table B-5 shows, wide fluctuations in outstandings characterized all the important trades selling goods on instalments. Automobile outstandings fluctuated somewhat more widely than those of other trades, but all were extremely unstable quantities.

Haberler, summarizing the data assembled by the National Bureau of Economic Research, found a close correspondence between the ups and downs of the Bureau's "reference" cycles of general business and its monthly figures for the amount of instalment credit granted, the amount of instalment credit outstanding, and successive month-to-month changes in outstandings. Instalment-sale credit followed business cycles more closely than did cash loans. There were small differences in the turning points of the three series, with net change in outstandings turning first, new credits next, and outstandings last.[2]

[1] Anyone interested in more detailed analyses should consult W. F. Crick, *The Economics of Instalment Trading and Hire-Purchase;* R. Nugent, *Consumer Credit and Economic Stability;* and the series of *Studies in Consumer Instalment Financing* made under the auspices of the National Bureau of Economic Research, especially G. Haberler, *Consumer Instalment Credit and Economic Fluctuations.*

[2] G. Haberler, *op. cit.*, pp. 2, 3.

We have seen, especially in Table 17, that these broad movements in instalment credit are the composite result of widely divergent behavior by individual consumers. Even while aggregate outstandings were rising rapidly, a great many individual consumers were reducing their obligations under instalment contracts. However, for consumers as a whole, the use of instalment credit in buying tended to reinforce the influence of the cycle upon incomes rather than to counteract it. Tables 27 and 28, based upon the survey of consumer spending and savings in 1941, show a positive correlation between increases in income and the use of the instalment system in buying. The larger the increase a family's income showed as compared with the preceding year (or the smaller its decrease in income), the greater the probability that it would make use of instalment buying. Thus, 39.4 per cent of all families whose income in 1941 was at least 50 per cent higher than in 1940 used the instalment plan. In contrast, only 8.2 per cent of those whose income dropped 25 per cent bought on instalments.

Statistics on cyclical fluctuations in instalment buying, unfortunately, cover only the short period since 1929, and this period includes the thoroughly abnormal war period from 1939 on. Economists thus have very little evidence on which to judge the cyclical behavior of a way of buying durables whose formal history extends back a century and a half. Quantitative checks of any hypotheses concerning the part played by instalment buying in the cycle must thus be fragmentary and inconclusive.

Defining and Measuring the Business Cycle.—Evaluation of the part played by instalment buying in the business cycle is further complicated by the difficulty of deciding exactly what the business cycle is. To the layman the cycle probably is nothing more than a vaguely visualized alternation between "good times" and "hard times," each defined by reference to some specific period such as 1927–1929 and 1931–1933. Even the technical student sometimes refers to the cycle as nothing more definite than alternations of prosperity and depression. Usually the economist is more specific, but he may fall at any point within a wide range of complexity. Thus at one extreme of simplicity, Nugent defines the cycle narrowly but vaguely as consisting of "substantial variations in the rate of production, after adjustments for seasonal and secular changes, without implying the periodicity or automatism of such variations." [3] At the other extreme of complexity falls the definition to which the research staff of the National Bureau of Economic Research has come:

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[3] R. Nugent, *Consumer Credit and Economic Stability*, p. 147n.

> Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mostly in business enterprises; a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration, business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximating their own.[4]

Isolation and measurement of the general business cycle is thus no cut and dried procedure. It involves not only effective mathematical tools but also large elements of judgment concerning the relative importance of the many measures to be compared.

Here again the work of the National Bureau offers significant examples. Burns takes one aggregate out of many that make up "general business," an index of factory employment, and sees what degree of correspondence there is between its cyclical movement and the cyclical movements of its 21 components. The figures cover nine stages in each of four cycles between September, 1921, and May, 1938. In only four of the 36 stages did all 21 components move upward or downward together; in the other 32 stages, from one to twelve components moved in the opposite direction from that of the index. As Burns remarks:

> The conception of a business cycle as a synchronous expansion of all economic activities followed by a synchronous contraction, which theorists so often hold, is not drawn from life. Expansions and contractions occur together, side by side, at every stage of the business cycle. If that fact sometimes escapes our notice, it is only because we are in the habit of watching aggregates. Pulsating movements go on steadily within the aggregates, and they often have no close relation to the cyclical tide of the aggregates.[5]

Evaluation of the part played by instalment buying in this confusion of movements is made still more difficult by uncertainty as to the nature of the influences to be measured. Instalment buying conceivably can contribute simply to the fact of instability, to lengthening or shortening the cycle, or to making greater the amplitude of the swings between the peak of the boom and the trough of the depression. Writers differ in the stress they put upon these factors, as in the extent to which they emphasize fluctuations in quantities other than national income or product. During the years from 1941 on, for example, the influence of in-

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[4] A. F. Burns and W. C. Mitchell, *Measuring Business Cycles*, New York, National Bureau of Economic Research, 1946, p. 3. This monumental report is by far the best description available of the difficulties to be solved in defining, isolating, measuring, summarizing, and comparing cyclical fluctuations in business.

[5] A. F. Burns, *Economic Research and the Keynesian Thinking of Our Times*, New York, National Bureau of Economic Research, 1946, p. 22.

stalment buying upon price attracted much attention. Some writers have also stressed the indirect influence of instalment buying upon economic stability, as in arguing that it has helped introduce larger elements of instability into the economy through facilitating the growth of durables, which tend to be characterized by relatively stable prices and unstable output.

The Relative Importance of Instalment Buying in Economic Fluctuations.—Economists disagree sharply among themselves concerning the importance of instalment buying as a factor making for economic stability. Nugent, Merriam, and Robinson, for example, call its influence "increasingly powerful," "highly important," "a powerful stimulant," and if not "the dominant cause" of economic fluctuations at least "an important contributing cause." [6] On the other hand Miss Reid

TABLE 59

ANNUAL TOTALS OF INSTALMENT CREDIT GRANTED. REPAYMENTS AND NET CREDIT CHANGE, EXPRESSED AS A PER CENT OF INCOME PAYMENTS RECEIVED BY THE $5,000-AND-UNDER INCOME GROUP,[a] 1929–1938

Year	Credit Granted[b]	Repayments[c]	Net Credit Change[d]
1929	9.40	8.54	0.86
1930	8.55	9.43	−0.88
1931	7.84	8.98	−1.14
1932	6.09	8.12	−2.03
1933	6.73	6.44	0.29
1934	7.28	6.65	0.63
1935	9.24	7.53	1.71
1936	10.97	9.07	1.90
1937	10.67	9.89	0.78
1938	9.66	10.73	−1.07

[a] The data relative to income payments (excluding work relief wages, dividends, and interest) received by those reporting incomes of $5,000 a year or less for 1929–1937 were developed by the National Income Division, the Bureau of Foreign and Domestic Commerce, Department of Commerce. The estimate for 1938 is Holthausen's extrapolation based upon income payments to all income recipients in that year as estimated by the National Income Division. The above table was compiled by dividing his estimates of total credit granted, repayments, and net credit change for each year by the amounts received by the $5,000-and-under income group in each year. Unregulated lender loans and insured FHA (Title I) loans are included.

This table assumes that the $5,000-and-under income group includes almost all instalment users, since about 97 per cent of the families indebted for instalment purchases and instalment loans were in the $5,000-and-under bracket. See National Bureau of Economic Research (Financial Research Program), *The Pattern of Consumer Debt, 1935–36*, by Blanche Bernstein (1940) Chapters 2 and 3. The table also assumes that this was true in all years, and that the same percentage figure applies to single individuals as well as families.

[b] Including loan renewals (old balances renewed) of cash loan agencies.

[c] Including accounting collections on cash loan balances renewed.

[d] Minus sign indicates a decrease in net credit; otherwise an increase is to be understood.

Source: Duncan McC. Holthausen, and others, *The Volume of Consumer Instalment Credit, 1929–38*, p. 101.

[6] R. Nugent, *Consumer Credit and Economic Stability*, p. 19; M. L. Merriam, "Instalment Credit: A Business Stabilizer or Financial Hazard?" *National Furniture Review*, April, 1938, p. 69; and R. I. Robinson, *Credit Management Year Book: 1945*, p. 16.

finds the likelihood "very slight" that instalment credit has an inflationary effect, and Moulton reports that in a comprehensive study of the preceding depression, published in 1937, the Brookings Institution did not even list instalment credit as a factor of instability existing in 1929.[7]

The available data support an intermediate position. Table 59, compiled by Holthausen and his associates, computes the net increases and decreases in instalment credit outstanding for each year from 1929 to 1938, inclusive, as a percentage of the total income received by consumers with incomes of $5,000 or less per year. As one would expect, changes in consumer credit outstanding added to consumer income in upswings and reduced consumer income in downswings, thus tending to intensify the movement. The direct contribution of consumer credit to the situation was very small, however. It exceeded two per cent of consumer income in only one out of ten years.

Such data lead Haberler to conclude that fluctuations in consumer credit represent a small element in the forces at work to produce either cyclical fluctuations in business or long-run changes in the level of production. This is true even after he allows generously for the multiplier effect in accordance with the Keynesian analysis. Other comparisons of consumer-credit outstandings, as with income-creating Government expenditure and with changes in outstandings under farm and nonfarm mortgages, support this result. The cyclical importance of instalment credit during the period 1929–1940 though not negligible was not very great.[8]

Mors, after looking over the available evidence, comes to a characteristically cautious conclusion: "It is beyond the scope of this study to attempt a settlement of this problem; the weight of opinion is definitely on the side of admitting consumer-credit fluctuations to a place of minor influence in their effect on the cycle." [9]

One should add that the weight of the "evidence" as well as the weight of "opinion" supports this view. Recent investigations have tended to deflate the conclusion of earlier studies that instalment buying is a major factor in economic fluctuations. Its influence is significant enough to merit careful study, but not so significant as to overshadow all its other aspects that have been brought into view in this volume.

Confusions in Business Cycle Theory.—Very important as a factor complicating the analysis of instalment buying's part in economic fluctuations is the confusion of theories about the business cycle itself.

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[7] M. G. Reid, *Consumers and the Market*, p. 253, and H. G. Moulton in his foreword to H. Ittleson, *A Current Appraisal of Instalment Financing*, pp. 1, 2.

[8] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, pp. 11, 12, 149, 151, and Chapter 5. See also J. M. Chapman, *Commercial Banks and Consumer Instalment Credit*, pp. 17, 201, where it is pointed out that loans to sales finance companies by a sample of banks, although extremely volatile, represented a very small fraction of total loans.

[9] W. P. Mors, *Consumer-Credit Theories*, p. 63.

> By finding the causes of recurrent alternations of expansion and contraction, investigators have hoped to discover how contractions can be averted. The number and diversity of the diagnoses and prescriptions offered, long a reproach to economics, stem from the inability of investigators to determine how adequately their own and one another's explanations account for what actually happens during a business cycle. Even the "theories" most fashionable today are really untested hypotheses. Yet some of their advocates offer practical guidance to government and public with an assurance that contrasts painfully with the caution of physicians in treating imperfectly understood disorders of the body.[10]

Under these circumstances any analysis of the significance of a single factor, such as instalment buying, in economic fluctuations must follow a difficult course. It must avoid dogmatic acceptance of any one theory of the business cycle, however fashionable or unfashionable; and it cannot hope to substitute a new one of its own. The study of economic fluctuations has become a highly specialized full-time task for many research men. The student whose principal interests lie elsewhere in economics cannot compete with them in setting up a more meaningful generalized theory. The best he can do is to give some description of fluctuations in the particular quantities of interest to him, point out how they grow out of and contribute to other economic fluctuations, and suggest how they fit into one or another of the more generally acceptable theories.[11]

The Nature of Business Cycles.—The basic reason for the multiplicity and diversity of cyclical theories lies, of course, in the enormous complexity of the problem. Not only is the number of quantitative series that must be combined into an aggregate of some sort very large; there are also many different kinds of fluctuation to be eliminated before the cycle comes to view. Short term fluctuations that recur, but fall within the period of a year or less, are eliminated as seasonal movements. A very long continued growth or decline is eliminated as a trend. Fluctuations that appear to have no pattern of recurrence and are not long sustained are eliminated as random or erratic changes. What is left becomes the cyclical fluctuations. Even here there is room

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[10] W. C. Mitchell, *Economic Research and the Needs of the Times,* New York, National Bureau of Economic Research, 1944, p. 36. See also E. A. Goldenweiser, "Research and Policy," 30 *Federal Reserve Bulletin* (April, 1944), especially pp. 314, 315, and E. P. Schmidt, *Post-War Readjustments,* No. 3, "Some Unfavorable Factors," Washington, Chamber of Commerce of the United States, 1943, especially pp. 21–23, for criticisms of the use of unproved assumptions and hypotheses as the basis of responsible planning or definitive action.

[11] Classifications and brief summaries of the principal cycle theories will be found in a number of sources, two of which may be cited: W. C. Mitchell, *Business Cycles: The Problem and Its Setting,* New York, National Bureau of Economic Research, 1927, and G. Haberler, *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements,* Geneva, League of Nations Intelligence Service, 1941 (3d. ed.). For a bibliography of articles on business cycle theory compiled by H. M. Somers, see *Readings in Business Cycle Theory,* Philadelphia, The Blakiston Co., 1944, pp. 443–487.

for disagreement, since some students find evidence of very long cycles extending through 50 or 60 years and there is much debate over the smallest number of general or reference cycles into which the widely variant "special" cycles of particular statistical series can be fitted.

Having isolated their cycle, cycle theorists go a step further. They build upon a belief that cyclical fluctuations not only exhibit a tendency to recur within a fairly short period but are also characterized by a particular type of behavior. In whatever direction they move, they always slow down, stop, and reverse themselves. The central problem of cycle theory is to explain this characteristic of self-limitation. Some authors have looked to factors outside the economy, such as sunspot cycles or weather cycles for the explanation. In more recent years, however, emphasis has been put upon the structure of the economy itself. Its mechanism is held to be somewhat like a swing or a pendulum that moves only so far in one direction before reversing itself and coming back. Even if it receives an impulse from outside, it converts the force into to-and-fro movements.

Most economists will agree nowadays that the economy exhibits recurrent movements of this sort, to be explained by internal pressures that slow down and in due course reverse the direction of any movement. Where they differ most vigorously among themselves is as to the precise factors responsible for these movements, the relative importance of the various factors, and the mechanisms through which they operate. The influence one attributes to a particular factor, such as instalment buying, will vary considerably according to the view he takes of these larger matters.

The Emphasis Put Upon Large Economic Aggregates.—The very fact that cycle theory works with huge aggregates, such as national income, saving, investment, and employment, creates difficulties of concept, definition, and measurement. Economists usually define these terms in specialized ways, and they are not always careful to keep the limitations of their definitions in mind, particularly when they move from abstract analysis to statistical verification or social policy. Sometimes the limitations run the other way. The theory is restricted or shaped by the nature of the concepts the statisticians find it possible, if not to measure, at least to guess. Enthusiastic proponents of particular theories sometimes lose sight of these limitations when they try to apply their conclusions to the management of affairs or the explanation of some particular phenomenon such as instalment buying.

When a cycle theory based upon the analysis of large aggregates is applied to a specific small factor, such as instalment buying, a further difficulty arises. Large divergencies are found between the behavior of

the aggregate and that of the individual series it comprises. One then finds it very difficult to know how much and what sort of credence to put in the broad concepts used by many abstract theorists as descriptions of what goes on. The National Bureau of Economic Research after a quarter of a century of monumental labor in assembling, tabulating, and testing data has nearly 1300 time series, most of them extending back 30 years or less, a framework of "reference" cycles against which individual series can be compared, and (if one may judge from recent utterances of its staff) a profound reluctance to generalize very broadly about what the course of events in a cycle is, to say nothing of explaining why things happen as they do and what can be done to control them. The essential difficulty lies in judging whether and to what extent these aggregates or averages have meaning in the sense that they represent common elements in the individual series combined, and thus lend themselves to some degree of effectiveness in prediction and control.

The Importance of Money and Credit in Cycle Theory.—Although these limitations of cycle theory should be kept in mind, they must not be permitted to suggest either that economists have made no progress toward solving the problem or that they are hopelessly and completely in disagreement. There would be no serious disagreement among them that maladjustments in different parts of the flow of income and expenditure (sometimes described as a discrepancy between the costs incurred and the prices received for goods) play an important part in the phenomenon, as do certain aspects of monetary management. Furthermore, symptoms if not causes of cyclical movements can be found in discrepancies between the flows of purchasing power and the flows of goods (sometimes described as a deficiency of monetary demand). There is much disagreement as to precisely how these matters work out in detail and as to the influences of various other factors, such as variations in the rate of invention and the acceleration of derived demand. No one very seriously doubts, however, the idea that the money mechanism is an important factor in the situation. This is one reason why economists are virtually unanimous in their belief that strong controls over bank credit will be essential in any system of control over the cycle; and why many of them would include credit in any form under the controlled items.

The Kinds of Influence Exerted by Instalment Buying on Economic Fluctuations.—The crucial questions to be answered in relating instalment buying to the business cycle can be put in many ways. What causes the wide cyclical fluctuations we have observed in the volume of credit sales and outstandings? How do these fluctuations in their turn affect other aspects of the economy? If attention is directed to controls

rather than to temporal or causal sequences, to what extent can instalment-sale credit be used effectively as an instrument to hold expansions and contractions within limits and thus achieve stability, preferably on a rising trend? How do instalment-sale terms compare in effectiveness with other possible points at which to apply controls?

Answers to such questions can best be sought by considering in some detail the two ways in which instalment buying is generally thought of as influencing the fluctuations of the economy. First and most frequently discussed is the influence of instalment buying as a factor tending to stimulate or depress consumer expenditure. Second is the operation of the law of acceleration of derived demand. This is attributable to the kind of goods for which instalment buying is used rather than to instalment buying itself, but it is often thought of as being something for which instalment buying is responsible.

Stimulating-Depressing Effects of Instalment Buying.—In its crudest form, the idea that instalment buying has a cyclical influence upon consumer expenditure simply generalizes the notion that this credit operation encourages people to buy today from tomorrow's income. Eventually the time comes when they find themselves obligated for periodic payments heavier than they want to carry, particularly if their incomes begin to drop. They accordingly reduce or even stop their buying (that is, entering new transactions on retailers' books). This tends to push business into a depression or to intensify a depression already under way. The effect becomes apparent most immediately in the physical movement of durable goods through production and distribution, where the setback may be prompt and sharp.

Insofar as the flow of money from consumers to sellers is concerned, the recession probably will develop slowly, although most writers pass over the point. As we have seen, it used to be predicted during the 1920's that a depression would sharply and immediately curtail the flow of payments, produce high rates of delinquency on consumer debt, and lead to serious difficulties for many retailers and lending agencies, thus intensifying the depression in another way. The remarkably small losses sustained under instalment contracts in the 1930's have destroyed this argument. Even without this additional source of difficulty, however, this theory would hold that the troubles of business will be great when consumers stop buying and begin paying up. How the movement reverses itself and helps get business back into an upturn is an aspect of the matter not ordinarily covered by these analysts.

This line of argument is the rudimentary form of a much more sophisticated doctrine that builds upon concepts of stimulating expenditures and depressing savings. In its simplest form, this doctrine in-

volves the unqualified use of a mechanical analogy or a mathematical formula as a statement of fact about society. It also involves uncritical acceptance of conventional definitions, as when it identifies consumer expenditure with entry of transactions on retailers' books and also with the flow of income from consumers back into the economic system.

The mechanical analogy is that of a circular flow of money incomes and disbursements resembling a flow of water through a closed system of pipes. As long as those who receive the incomes disburse them again for either consumer or producer goods the flow continues unabated. If some of the income is hoarded (that is, if some of the water is drawn off into a tank), the flow diminishes. This in turn may lead to a deflationary spiral through its influence on two factors, price and physical volume. Here the figure of speech breaks down. If spending power impounded in the tank is poured out into the stream (sometimes referred to as dishoarding or dissaving), the income flow rises and may set off an inflationary spiral.

Very involved analyses may be made of the way in which stimulating flows out of the tank divide their influences between raising prices and increasing the physical output of goods, as well as of the multiplier effects involved. In general it seems to be felt that increments are likely to stimulate physical output when a substantial part of the economy's resources are unemployed (as in the depths of a depression), and to be dissipated in price increases when the economy's productive powers are fully employed (as at the peak of a cycle).

In this elaborate analogy the "tank" is thought of as a combination of warehouse and factory. It includes the ability of the monetary system to create and destroy purchasing power through the operations of the Treasury and the banking system in creating and destroying demand deposits and other forms of money. When economists turn from this analogy to problems of control, it is to this money creating and money destroying power that they usually look first.

Limitations of Reasoning by Analogy.—In using this type of analogy, economists ordinarily appreciate some of its limitations. They often tend to be somewhat careless, nevertheless, in applying it too literally to the economy after allowing for only its more obvious weaknesses. When one speaks of water flowing through a system of pipes, it makes no great difference which particular units of water are pumped in or out, by whom they are pumped, or where. The units are homogeneous. This is not so for the economic system. Units of income, purchasing power, expenditure, product, and the like are heterogeneous. The assortment of units and their distribution among individual consumers and producers are fully as important as the aggregate amount. Further-

more, there are really two different circuits in the economic system—the flow of physical volume and the flow of monetary values. These are related to and affect each other, but are not identical. It cannot be assumed that changes made in the monetary flow by some central authority will produce or offset satisfactorily changes in the physical flow.

This sort of reservation becomes particularly important when we consider instalment buying, because some economists seem to look upon instalment sale credit in the simplest mechanical terms as a pool of fluid that can be turned into or drained out of the economic circuit at the will of a controller, with beneficient effects upon the aggregate flows of both money and goods. Thus the Federal Reserve Board describes unused consumer credit as "a margin that can be used, as savings can be used, when the supply of consumers' goods becomes more plentiful and when the need may arise for a large volume of consumer buying to sustain employment, production, and income." [12] The assumptions that flows of income and expenditure can be controlled by some process as simple as turning a spigot off and on, that changes in the flow of one conduit can be compensated for by changes in the flow of another, and that changes in these flows are in some sense causes rather than consequences or mere measures of changes in the flow of the system as a whole—all these assumptions are very doubtful, to say the least.

The same sort of warning needs to be raised concerning too literal application of mathematical analogies. One of the current fashions in economics is to describe fluctuations in formulas, diagrams, and "models." The procedure is useful and informative so long as one remembers that manipulations made readily enough in the factors of an algebraic equation cannot always be made in the economic realities for which these symbols stand.

Instalment buying fits into these analogies as one of the elements whose flow is to be controlled and whose variations, whether controlled or not, substantially influence the volume of the entire flow. An increase in outstandings represents an expansion of the flow of purchasing power through the system and is thus a stimulating force. A decrease represents a reduction in the flow of purchasing power and is thus a depressing force. Since the available evidence, as we have seen, indicates a close correspondence between the turning points in outstandings and in the general cycle, a causal relation is assumed.

The Influence of Durability and Large Unit-Value.—Like many explanations of business cycles and the parts played in them by specific factors under survey, this one is persuasive only so long as the analyst holds himself within the confines of the pattern set by his analogy. In-

[12] 32 *Federal Reserve Bulletin*, p. 572 (June, 1946).

dividuals, in buying and selling durables, do not really conform to that pattern. For example, the primary irregularity in spending (again defined as entering transactions on retailers' books) grows not out of irregular flows of income but out of the fact often referred to in this study that the satisfactions embodied in durables come in lumps selling at unit prices too large to come out of the pay received during one income period. The consumer must accumulate the price from a series of pay checks. Whether he does this by saving up to pay the lump sum, by paying the retailer on some lay-away plan, by borrowing the lump sum in cash and repaying it in instalments, or by borrowing the goods and paying for them in instalments, the purchases must be in lumps and the payments must be accumulated. Instalment buying has nothing to do with creating this phenomenon or with its effects upon economic stability.

So long as expenditure is defined as equivalent to entry of the transactions upon the retailers' books, all four systems of payment entail a period during which expenditures are foregone. This can be looked upon as an interruption of the income flow or a depressing withdrawal of purchasing power. Similarly, under all plans the lump expenditure, when it comes, is a stimulating additional of purchasing power during the period within which the purchase falls. Even these effects appear only when a fairly short time is taken as the balancing period. If the balancing period were taken to cover typical instalment terms, instalment buying would neither add to nor subtract from the consumers' purchasing power. It would be merely a way of balancing out minor differences in the timing of consumer income and expenditure. Since typical terms under instalment contracts are shorter than the typical business cycle, and much shorter than the longest cycle on record, it seems incontestable that any cyclical stimulating-depressing effects instalment buying may have do not work out this way.

Insofar as this aspect of instalment buying has a stimulating-depressing effect, whether cyclical or not, it does not differ substantially from saving up to pay cash or the lay-away plan. Where these various plans of accumulation or payment do differ is in their timing. Under pay-as-you-use plans (whether instalment purchases proper or lump payments made possible by instalment-cash loans), expenditure is stimulated first and depressed afterward. Under systems of accumulation for later use (whether by lay-away or by saving to pay cash), the depressing effects come first and the stimulation later. If the processes are regarded as continuous, then there is no significant difference within any one cycle in the effects. Under both plans the consumer alternates spending and saving. If two individuals start together on different plans, one will be a purchase behind the other all the time; but once the systems are

established in operation there would seem to be no difference in their effects upon aggregate purchases and savings during any given period.

A full analysis would go on to see what happens to the money the individual consumer "pays" or "saves." There are several forms of "saving" by individuals, and each has different effects as regards keeping money in circulation or hoarding it in some reservoir. Various things can be done with the money paid to retailers and similar agencies under lay-away and instalment plans. The consumer has a number of possibilities open to him if he decides not to purchase durables at all and so has purchasing power available for something else.

In the absence of factual information as to the choices made in all these situations, an analyst must fall back on assumptions. This procedure has little utility other than as an exercise in logic, since the assumptions will determine the result. The only certain conclusion is that the consequences of an individual consumer's adopting one or the other of these plans of purchasing durables or of his not purchasing durables at all are far from simple and direct.

Instalment Buying and Cyclical Patterns of Expenditure.—If expenditure is defined as being equivalent to the payment of cash to retailers, rather than as the entry of transactions on retailers' books, the instalment and lay-away plans result in a much more regular flow of purchasing power through the system than do either saving or borrowing to pay cash. As we have seen, many instalment sellers try to get their customers into the habit of spending a given amount each week or month in a particular store. The nearer to success the retailer comes in this effort, the smaller the degree of fluctuation in a consumer's spending. His efforts tend not only to stabilize the aggregate amount of purchasing power flowing through the economic system, but also to keep it flowing through the same conduits and into the same manufacturing industries. In other words, they tend to stabilize both the amount of the income flow and its distribution among economic units.

Insofar as the specific unit of goods bought by an individual consumer is concerned, an instalment purchase, as we have seen, seems to have the effect of moving forward in time the whole chain of processes that starts with extraction and continues through the various stages of processing, distribution, and consumption. The one big factor in the consumer's situation whose timing remains unaffected by the purchase plan is his receipt of his income. It is important to remember, however, that the apparent changes in timing of those elements that are affected may be in a real sense fictitious. They may represent not a change in what the consumer actually does but the difference between what he does and what he would have done if he had done something else.

For present purposes it is better, therefore, to say that a consumer who buys on instalments merely places in time the processes that lead up to his acquiring physical possession of the goods as well as his actual consumption. If he has changed his method of buying goods from one purchase to the next, or if he has taken the place of another consumer who had followed a policy of saving to buy, the effect of his buying will be to push ahead somewhat the various physical processes and the financial transactions tied to them. Thus his change will tend to increase physical production, the income paid producers, and retail sales (in the conventional sense) for the period during which he makes the change. In this period two elements in production will be required. One will be production for consumers whose established buying procedures remain unchanged. The other will be an additional output required to take care of those whose change to instalment purchasing is pushing forward the time at which they take possession. After the new element in production has become established, the various quantities presumably will fall back to their earlier levels.

This is the institutional change in the timing of successive economic processes referred to in earlier chapters. Although historically it may have had an important influence upon some particular cycle or two, as during the 1920's and 1930's, there is nothing inherently recurrent or cyclical about its stimulating or depressing effects. It could be cyclical or recurrent in its influence only if consumers changed their buying habits back and forth between instalment and cash buying in a recurrent pattern. Nothing in the records or in logic indicates that consumers do in fact behave this way.

Furthermore, nothing in the nature of instalment buying itself forces the individual into a cyclical pattern of expenditure under any definition of the term. Once the instalment method has been established, it is available at any time, and regardless of the phase of the cycle, to any consumer who has an income that will enable him to show good prospects of paying his account. In this regard instalment buying differs not at all from cash buying, which is always open to any consumer with the requisite purchasing power. If the individual follows a cyclical pattern in buying, he does not do so because of the instalment system. Other forces must be held responsible.

The same conclusion seems to apply to consumers in the aggregate. Nothing in the nature of either durable goods or the instalment system requires consumers to concentrate their purchases in the boom periods of successive cycles. The supply of credit does not seem to fluctuate cyclically. There is no clear evidence that the terms offered vary with the cycle either directly or inversely. Durable goods are also always available, in good times or bad, unless arbitrary restrictions are set up,

as during the war. Nothing in these aspects of instalment buying explains the clustering of purchases in the boom years. In the absence of some outside influence, one would expect a random distribution of purchases over time rather than a distribution in some recurrent pattern.

Fluctuations in Income as a Cause of Fluctuations in Instalment Buying.—Presumably the outside factor lies in the demand for the durables themselves. It cannot be attributed to cyclical fluctuations in the demand for credit as distinct from the demand for the goods, since there is no evidence that the proportion of goods sold on credit varies significantly from one phase of the cycle to another. Similarly it cannot be attributed to cyclical fluctuations in the use of durables as distinct from their purchase, since the available evidence shows a relatively stable rate of use of consumer durables by their owners. There is thus no reason to doubt that the primary reasons for the great fluctuations in the purchase of durables lie in changes in the consumers' income and consequent ability to buy, and in the characteristics of durability.

We have already seen that it is illusory to attribute cyclical fluctuations in the purchasing power of individuals to instalment credit. The same conclusion seems inescapable when consumers are considered as a group rather than as individuals. The instalment system does not add to the income of consumers. It merely changes the point at which physical possession of the goods is transferred within the period required for consumers to accumulate the purchasing power they need if they are to purchase durables.

When an industry producing and distributing durables is being built up, the addition of instalment buying will in a sense shorten the period required to reach any given level of output. This has a stimulating effect through the income created by this production and the indirect consequences of the spending of that purchasing power. The phrase "in a sense" is important, however. The speeding-up process appears only when the timing of production under a system of selling some aggregate product on instalments is compared with its timing under a system of selling for cash. In practice, a change from one system to the other has not occurred. What has happened is rather that sales on instalments have been added to sales on other bases, and the net effect is a higher trend line about which the aggregates fluctuate seasonally, cyclically, or at random, as the case may be.

Instalment Buying as a One-Time Stimulant.—Even in the sense here used, the stimulating influence of instalment buying is not necessarily cyclical. When instalment buying speeds up the attainment by an industry of some level of output, it does so once and for all. When the industry has achieved its growth with the aid of instalment buying,

the timing of its manufacturing and distributing operations will assume the availability of the plan. Thereafter fluctuations in the aggregate of instalment buying must reflect fluctuations in general business rather than initiate them.

Haberler agrees with this conclusion that the fluctuations of a mature instalment system result from, rather than help to cause, general business cycles, but he adds a judgment that even in a mature credit system instalment buying will tend to intensify the fluctuations:

> When incomes rise in the upswing of the cycle, demand for credit increases, implying that people increase their expenditures by more than the increase in their income. When incomes shrink in the downswing of the cycle, credit contracts and people are forced to decrease expenditure more than they would if they had not contracted debts in the preceding upswing. It follows that credit intensifies the cyclical swings in consumer expenditure, and hence in economic activity, functioning like an amplifier or resonator. This behavior is in no way different, however, from that of credit in general, producer credit included.[13]

The conclusion that a mature system of instalment buying has even this much of an effect upon economic fluctuations is acceptable only if the ratio of instalment purchases to cash purchases increases on the upswing and decreases on the downswing, or, more precisely, if the ratio of credit purchases to income increases on the upswing and falls on the downswing more than the ratio of cash purchases of durables to income. Otherwise the fluctuations must be attributed to the nature of durables rather than to the availability of instalment credit. There is no evidence to indicate that these changes in the ratios take place, although a great many writers speak loosely of a greater willingness of consumers to assume debt obligations in good than in bad times. Furthermore, even if such changes occur in the ratios, they would intensify the cyclical swings only if the credit represented a net addition to aggregate purchasing power rather than a transfer of purchasing power from one individual to another. Otherwise the instalment purchases would be no more stimulating than purchases for cash drawn out of savings, and the stimulating effect would again have to be attributed to the fact that durables are bought in lumps rather than to the fact that some of them are bought on time. Finally, if the intensification of the cycle is present only when there are net additions to or subtractions from purchasing power, the final responsibility would seem to rest upon the credit and monetary authorities who make the net changes rather than upon the consumers and businessmen who react to the changes in a particular way.

[13] G. Haberler, *Consumer Instalment Credit and Economic Fluctuations,* p. 11. See also pp. 132–134. Haberler here makes the conventional identification of "expenditure" and "entry on retailers' books."

Instalment Buying and the Level of Production.—The tendency to consider instalment buying an important factor intensifying cyclical fluctuations springs in part no doubt from the historical fact that it contributed heavily to the development and growth of the automobile industry. Between 1920 and 1941, the production and distribution of automobiles alternately rose to very high levels and fell to very low ones. Since instalment buying played a conspicuous part in the growth of the industry, and since it is currently fashionable to speak of the stimulating-depressing influence of credit upon business, one can easily slip into the conclusion that without instalment buying the market would have been much steadier.

In the light of our analysis it would seem sounder to conclude that instalment buying has played an important part in determining the height at which the growth curve levels off but is not responsible for subsequent cyclical fluctuations about that level. In these fluctuations instalment sales (like cash sales and charge sales) follow or reflect the cycle rather than lead or cause it. They reflect rather than cause changes in the income from which consumers draw their real purchasing power.

Limitations of Controls Over Consumer Credit.—This is one of the reasons why manipulation of terms offers a very poor instrument of control over the cyclical influence of instalment buying. Credit restriction can undoubtedly hold back sales. In attempting to use instalment credit as a stimulating factor, however, any controlling agency probably would find itself reaching for something not there. Instalment credit can be expanded only when the consumer wants the goods and when both the consumer and retailer feel that he can pay for them. These decisions are likely to be determined more by the consumer's prospective income than by the desire of some agency to extend credit in general. A control that keeps out instalment buyers only when they can afford to buy is likely to keep them out altogether. Since cash sales of durables fluctuate as widely as credit sales, the net effect would seem to be not stability but instability at a lower level.

A second reason why manipulation of instalment terms offers little promise is that it deals with symptoms more than with diseases. The basic decisions as to when purchasing power shall be injected into the economic system, withdrawn from it, or left unchanged are made by the banking system and the monetary authorities in their work with such broad policies as bank reserves, rediscounts, government expenditure, taxes, and the monetization of the Federal debt. Selective controls over specific narrow segments of the economy are poor substitutes for broad controls. At most they are a way of rationing whatever amount of credit the system is permitted to create; and even if government ration-

ing were theoretically desirable, it is doubtful whether the people of this country will accept it in peacetime. Monetary controls should be designed to eliminate the independent influence of money in establishing values. They should do this by maintaining some sort of balance between the flow of money and the flow of production, distribution, and consumption in the economy. Choices among the possible specific uses to be made of purchasing power within the broad limits thus set up can best be left to the bargaining of borrowers and lenders, buyers and sellers.

A third important reason for doubting the efficacy of administrative controls over instalment buying as an indirect control over purchasing power arises from its timing. Instalment credit comes into operation late in the sequence of productive and distributive processes. Only a part of the purchasing power embodied in a durable good is injected into the economic system by the entry of the sale on a retailer's books. The bulk of the purchasing power is injected bit by bit as producers and distributors pay out the costs they incur. Appearance of the transaction on the books of the retailer or of the financial agency that takes over the contract is thus in large part a transfer of the purchasing power within the economic system rather than an addition. To the extent that this is true, the sensible procedure would seem to be to check unwonted injections of purchasing power early in the proceedings rather than after the goods have been produced in the expectation that they can be sold on instalments. The effects of a restriction at the consumer's purchase level will presumably work their way back to the earliest stages of production in time, but it would seem that direct use at the earlier levels would be more prompt, certain, and effective.

The Acceleration of the Derived Demand for Durables.—Even an effective control over the monetary aspects of instalment buying will not eliminate the consequences flowing from the acceleration of derived demand, which has more influence than instalment credit proper upon economic fluctuations but is commonly ignored by students of the problem.[14] Some of the influences upon stability commonly attributed to credit can more properly be attributed to this principle. It derives from the fact that consumers can obtain a flow of satisfactions from durables only by building up a store of them. While this store is being built up, the producer manufactures both to increase the stock and to replace units in the stock that wear out or are otherwise lost. Eventually, when the so-called saturation point is reached (that is, when the

[14] See, however, G. Haberler, *Consumer Instalment Credit and Economic Fluctuations*, pp. 125–132. A very clear description of the principle, as applied to capital goods in general, may be found in E. P. Schmidt, *Post-War Readjustments*, No. 6, "The Problem of Business Incentives," Washington, Chamber of Commerce of the United States, 1943, especially pp. 30–35.

stock has been built up to where it provides as large a flow of satisfactions of a particular type as the consumers want), production of the goods in question will be for replacement only. The resultant adjustment of manufacturing may be very severe. Similarly, when a stock is in existence, small changes in the consumers' demand for the satisfactions it embodies or even in the rate at which consumers want to increase their holdings will be reflected in a drastic change of manufacturers' operations. Thus a small percentage decline in the use consumers make of their cars could result in completely stopping purchases of new cars for either expansion of the stock or replacement.

An excellent illustration of the effects of merely slowing down the rate of accumulation is shown in Tables 1 and 2. From 1937 to 1940 the number of domestic electric refrigerators in use increased year by year, as did the percentage of wired homes having refrigerators. This means that use of refrigeration steadily grew larger, but at a reduced rate reflected in the fact that the number of domestic electric refrigerators purchased dropped from 2,310,000 in 1937 to 1,240,000 in 1938, or more than 46 per cent. Since inventories probably would be reduced under these circumstances, production almost certainly dropped at least by half. Thus manufacturers had to make drastic readjustments downward in their operations while consumer use continued to grow.

Smith illustrates the same principle from the automobile industry. The registration of new cars during the years 1930–1938, inclusive, totaled only 20,109,222 as compared with 27,722,631 in the preceding nine-year period, 1921–1929, inclusive. Despite this decrease in output, the total registration of cars increased during the 1930–1938 period from 23,121,589 to 25,261,649, or more than two million. In other words, a mere slowing down in the rate of growth of the consumers' stock of automobiles was enough to cause a fall of more than 27 per cent in production.[15]

The principle of acceleration needs to be emphasized in this discussion of instalment buying for at least two reasons. First, some economists find in this principle an important cause of business fluctuations. Determination of the extent to which this doctrine is true would carry us far beyond what is appropriate to the present study. To the extent that it is true, it provides an explanation of the influence of durables upon the cycle that is completely independent of instalment credit. Second, it must be emphasized that instalment buying is not responsible for the fact of acceleration or its effects. Even if all sales were for cash, a slowing down in the growth of demand for the utilities durables provide would have a large effect upon the output and sales of the durables

[15] T. H. Smith, *The Marketing of Used Automobiles*, pp. 14, 15.

themselves. Instalment buying thus influences not so much the fact of economic fluctuations as the level about which the fluctuations occur.

The Cost of a Large and Quick Accumulation of Durables.—Insofar as instalment buying enlarges the stock of durables consumers accumulate by facilitating their purchase, it of course contributes to increasing the area of instability in the economy. Furthermore, insofar as it speeds up the accumulation of any given stock of durables, it brings about sooner the need for adjustment from original to replacement markets and possibly makes the inevitable readjustment somewhat more drastic. In strict logic, these effects are attributable to consumer choice rather than to instalment buying, which primarily facilitates consumer preference for durables as contrasted with nondurables in a specific situation. Some responsibility, however, may properly be attached to the instalment system itself.

The result is primarily to be viewed as the price consumers pay for building up a large stock of durables quickly rather than as the price paid for instalment buying. If speed in accumulation had no importance, one might propose a different approach. It could be argued that an estimate should be made of the stock of each durable that would be required to meet consumer needs and of the average life span of the units in that stock. It would then be a simple matter to work out a rate of production that would build up the stock, make replacements, and still provide for a smooth transition to replacement alone when the stock had reached the desired level. In this way the transition to a "saturated" market could be made imperceptible.

In practice, of course, the procedure would be impossible. No one has or is likely to get either the gift of prophecy or the degree of control required to plan for the future this way. Who in 1900 could have said how many automobiles American consumers would want to be driving in the 1930's, and who could have organized production so as to achieve precisely the rate that would permit a smooth transition to the replacement market? Furthermore, there would always be a question to answer whether the quick accumulation of durables is not worth its cost. If instalment buying can be held responsible for intensifying the problem of adjustment as growth slows down, it also deserves credit for speeding up the acquisition of durables. In our day we have come to emphasize security and stability, but we have not always faced up squarely to the alternatives before us. To a consumer whose one life is ticking inexorably away, the benefits of earlier consumption may be well worth the cost of even a severe later adjustment.

CHAPTER 25

THE INFLUENCE OF INSTALMENT BUYING UPON FAMILY FINANCES

Social workers and spokesmen for consumers find the most important problems raised by instalment buying not so much in its effects upon broad economic aggregates as in its effects upon individual buyers and their families. They may, for example, accuse instalment buying of leading consumers to choose badly among the goods offered them in the market, to lose rationality and prudence in the management of their affairs, and to weaken their finances so that their families have no effective protection when misfortune strikes. Various aspects of these problems already have been touched upon in this study; the present chapter will undertake a more systematic analysis.

The Need for More Comprehensive Data.—Here more than in any other aspect of instalment buying the student finds himself handicapped by paucity of data. Many writers have expressed very vigorous opinions; but they have offered remarkably little information in support of their statements. More cautious commentators have preferred to hold back before expressing themselves until better data become available.[1]

Adequate data would not necessarily make generalization easy. Interpretation is difficult, not only because information is scanty and often unrepresentative but also because instalment buying is a single thread in a tangled skein of influences that determine the end result, and because consumers undoubtedly vary widely in their behavior. Risk, commenting on what she learned from observing a group of cases before the Conciliation Division in Detroit's Court of Common Pleas, summarized the matter this way:

> Instalment selling defies nice generalizations concerning its influence as a social institution. It is but one of the many influences which impinge upon modern family life, and its consequences cannot be isolated completely from those of other forces. Also, the effect of an identical set of influences upon individual families is in large degree unpredictable. Like the indi-

[1] See, for example, W. B. Mors, *Consumer-Credit Theories,* p. 41; J. A. Hagios, *Credit Management Year Book: 1940,* p. 87; and W. T. Foster, "Public Supervision of Consumer Credit," *Pollak Pamphlet 36,* pp. 19, 20.

viduals who compose it, the family has temperament, prejudices, aptitudes, and ineptitudes, and what is one family's meat is another's poison.[2]

Despite these difficulties, judgments must be made. The problems are too important to be passed over. Fortunately there is some information available. Judiciously used it makes possible at least tentative conclusions on a few important matters. In the absence of more definitive knowledge it will give some guidance to those who cannot wait for all the evidence before choosing among alternative courses of action.

Instalment Buying and a Balanced Pattern of Consumption.—An obvious way to evaluate the effects of instalment buying upon the management of consumers' financial affairs compares users and nonusers of instalment buying as regards the distribution of their incomes over various classes of expenditure. Such statistics as there are on consumer income and expenditure show clearly enough that in an historical sense consumers have not acquired luxuries by reducing their consumption of necessities. From the available studies one must conclude that the mass of consumers are better fed, clothed, and housed, better educated and healthier than their ancestors. Such "luxuries" as instalment buying has helped them to acquire have come out of increases in income rather than redistributions of expenditure. More precisely put, instalment goods are the form much of the consumers' increase in income has taken.

If one wants to compare what is with what might have been rather than with what was, statistics have little utility. Here the problem becomes essentially a value judgment as to what constitutes "too little" or "too much" in any given category of expenditure. Critics of instalment buying believe that it leads to an unwise reduction in purchases of necessities. That is, instalment buyers do not delay their purchases of durables, as they should, until they have achieved, say, an optimum diet or an optimum expenditure for health. Defenders of instalment buying may reply in various ways. Thus they may say that in the absence of durables consumers would simply buy ephemeral rather than durable luxuries, that there is no clear line between luxuries and necessities, and that whether or not an item is a necessity or a luxury depends upon the prevailing patterns of expenditure in the social class to which a consumer belongs.[3]

A more meaningful line of analysis is suggested by Davis. He points out that no consumer in an advanced economy will give absolute primacy to his primitive needs, such as nutrition, shelter, and health.

[2] M. H. Risk, "Instalment Sale Contracts in the Detroit Conciliation Court," pp. 269, 270.

[3] See, for example, W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, pp. 75, 76, 193; Frank Parker, 196 *The Annals of the American Academy of Political and Social Science* (March, 1938), pp. 59, 60; and E. R. A. Seligman, *The Economics of Instalment Buying*, Vol. I, Chapters 10 and 11.

Since his income is limited, his attainable level of living is necessarily only a fraction of the optimum. He cannot hope to achieve the optimum in all areas of living, but must choose among alternatives in such a way as to achieve a balanced pattern. He is not likely to drop some division of consumption entirely, or even to curtail it drastically, in order to achieve the 100 per cent optimum in some other division. "The poorest insist on their luxuries. . . . Some sacrifice of needs to preferences is always inevitable." Davis also emphasizes the need to keep in mind the "nonconsumption components" of a level of living that influence consumer choices. These include such things as the release from isolation brought to families by telephone, radio, and automobile, and the satisfactions that come from the use of the automobile as a form of recreation or as a symbol of advancement and prestige.[4] This sort of influence no doubt explains the fact that for many consumers the automobile has become a necessity for which practically everything else in the family budget will be reduced sharply.

Condemning the purchase of relatively expensive durables on instalments as thriftless because presumed necessities are sacrificed to apparent luxuries, is thus not warranted. In a balanced structure many needs may be more pressing than the attainment of perfection in sheer animal survival. One cannot be too sure that only the foolish consumer gives them preference. Given human beings and society as they are, many consumers may have no meaningful choice at all between buying and not buying these goods. Their real choice may lie solely among ways to buy, i.e., to pay cash, to buy on credit, to rent, or to arrange to buy the service provided by the durable rather than the durable itself. Even this may put the alternatives too broadly, since buying for cash may be practically impossible.[5]

Admittedly, consumers make mistakes in their buying. A few mishandle all aspects of their personal finances. Many more undoubtedly fail to achieve a completely satisfactory balance in their consumption. It is here that instalment buying presents both a danger and an opportunity. Only a widespread survey can tell how well consumers avoid the one and embrace the other, but there is no strong indication that the results most of them achieve warrant the condemnation their most severe critics voice.

Instalment Buying and the Choice Between "Present" and "Future" Satisfactions.—A very important difficulty in evaluating the effective-

[4] J. S. Davis, "Standards and Content of Living," 35 *American Economic Review*, pp. 6–10 (March, 1945).

[5] Writers generally underestimate the importance of renting and purchasing the service as alternatives to purchasing the durables themselves. Housing, major appliances, and the equipment of public utilities are commonly rented or paid for through purchasing the service, a unit or two at a time.

ness of consumers as instalment buyers lies in the need to make sure that the true nature of the choices they face is understood. For example, as we have already seen in Chapter 22, it is not wholly valid to argue that instalment buyers must choose between "present" and "future" satisfactions. Their problem often can more correctly be described as having to decide how far they can go today in choosing among the satisfactions they will get tomorrow out of tomorrow's income. Actually, many instalment buying problems can best be described simply as choices among present needs in recognition of the fact that the economist's traditional practice of taking the "present" to be only an instant of time falsifies the position. The buyer or seller necessarily thinks of periods or blocks as the minimum units of time with which he can work.

This line of analysis can be put another way by saying that many buyers presumably would benefit from having services provided by durables in small lumps rather than large. This is a problem in technology or engineering rather than economics. If it were solved, the need for instalment buying could conceivably be reduced if not eliminated entirely. Until it has been solved, the economy must take as a fact the characteristic of durables that their services come in lumps. It cannot meet the situation by arguing that consumers shall forego the services because there are abstract objections to long terms.

Excessively long terms can be condemned sometimes because they confuse the buyer as to what he can afford now. Thus one merchant interviewed by the present author objected to terms of three years and longer on refrigerators simply because he felt that the consumer who needs such terms is trying to buy more refrigeration than he can support comfortably on his income. Similarly, very long terms on clothing are objected to because they mean that the consumer is being "oversold on clothing." He is trying to put more clothing into his budget than his income will provide.

In the absence of comprehensive and carefully designed studies it is impossible to tell exactly what alternatives consumers have in these areas, how well they know and understand the alternatives open to them, how energetically they shop for the best alternatives, and how effective the end result is. No factual studies of any significance have been made. The opinion of many who write on the subject is that consumers buy both durables and credit very badly, but this is only opinion. It is supported more by bias than by knowledge.

The Strength and Weakness of Consumers as Buyers.—A very important aspect of this bias appears in the judgment of the critics as to how strong, determined, and aggressive consumers really are as buyers. We have already given some attention to this matter in Chapter 21, but

an additional point or two must be made here. Among critics of instalment buying the underlying attitude is well summed up by the wry comment that "the only reason a great many American families don't own an elephant is that they have never been offered an elephant for a dollar down and a dollar a week." [6] At least this sums up the attitude of many critics concerning the gullibility and pliability of the consumer, although it perhaps understates their opinions concerning the ingenuity of the businessman. In extreme form the criticism is put this way:

> The consumer, almost the only remaining economic individual, is organized against. Consumers have no organization—hardly even a common consciousness. In their scattered and atomic millions they are bombarded by skilled advertisers and coached salesmen. They are cajoled, threatened, shamed, deceived. Their most decent and prudent impulses are turned to selfish commercial advantage. They pay high prices, often loaded with charges for unnecessary risk and for extravagant credit. They cannot tell what they are buying, and government does less than even industry itself to supply standards.[7]

Many other commentators, especially those whose background lies in social work or in reform movements, subscribe to the central idea that consumers are weak and need protection, even though they express themselves somewhat more temperately.

What such commentators have to say contrasts sharply with the views of most instalment sellers. They find the great bulk of instalment buyers quite well able to look out for themselves, hard to sell on even good values, and often quite willing to squeeze a hard bargain or take an unfair advantage. Many sellers, in fact, tend to exaggerate both the strength and the lack of scruple of consumers.

Each of these groups arrives at its opinions by hasty generalization about all consumers from experiences with a minority. The generalizations differ because they are drawn from different minorities. One group works chiefly with consumers who are in trouble because of inability to pay, often because they cannot control their impulses to buy more than they can afford. The other puts much of its energy into working with consumers who must be reminded, persuaded, and even pressed to pay what they can afford. Both tend to forget that most consumers lie between the extremes and attract little attention because they raise no problems. Only when the great majority of consumers has been studied in detail will balanced generalizations be possible as to their effectiveness in buying on credit.

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[6] *The Saturday Evening Post*, February 5, 1944, p. 72.

[7] B. Mitchell, 196, *Annals of the American Academy of Political and Social Science*, p. 12 (March, 1938).

Instalment Buying and Thrift.—Some aspects of the effects of instalment buying upon family finances are difficult to measure, not only because representative data are lacking but also because the factors to be measured are quite uncertain and indefinite. An example is the allegation frequently heard that instalment buying kills the thrift that once prevailed in the management of consumer finances.

In extreme form, this kind of attack upon instalment buying has all the faults it attributes to the sellers it attacks. It loses touch with reality as enthusiastically as the least scrupulous of salesmen. It makes no attempt to find out what place consumer debt really held in "the good old days," but takes moral precepts at face value as records of behavior. It gives no consideration to the possibility that buying for cash is a recent, not an ancient practice among consumers. It forgets the probability that people formerly bought little on instalments, not because they abhorred debt but because their levels of living were too low and their money incomes were too small, and because the economy did not provide a wide assortment of durables for them to buy.

Even in less extreme forms, pleas for thrift so defined as to exclude or severely limit instalment buying often express little more than a personal bias. No one can object seriously to insistence upon the desirability of care and prudence in buying, but this is quite different from saying that debt must always be eschewed. So the more temperate critics of instalment buying are likely to urge that, viewed in its proper sociological setting, instalment buying must simply be accepted as an established fact. It has grown "beyond the stage where it can be condemned or justified. Its existence is an almost universal reality in the life of the individual and the family." [8] If it is to be evaluated, the evaluation must concern itself with significant, living issues of use and management, not with issues that have been made meaningless by the firmly settled choices of the people.

The Influence of Income on Instalment Buying.—If we accept instalment buying as an established fact and go on to consider its effect, we shall find some evidence that consumers are by no means so careless in their use of instalment buying as some alarmists would have us suppose.[9] Thus Tables 27 and 28 indicate that instalment buying is closely associated with the establishment of families and other events in their normal life cycles. It is the younger married couples who buy most frequently on instalments, although presumably their average incomes are lower then than later. Up to the middle ranges of income, increases

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[8] P. F. Douglass, 196 *The Annals of the American Academy of Political and Social Science*, p. xi.

[9] Much of the discussion that follows has been adapted from R. Cox, *Installment Buying by City Consumers in 1941.*

in income lead people to buy more freely on instalments, but advantage is taken of the plan primarily in response to real needs for durable goods and not just because the consumer has the money and a higher credit potential. In the upper levels of income, where more "luxuries" are possible and the buyer presumably becomes a better credit risk to the store, the proportion of families using this method actually falls off.

The relatively greater use of instalment buying as the number of earners in a consumer unit increases bears on the same point. Although definitive conclusions cannot be drawn in the absence of more information, one possibility is that many if not most families budget their prime necessaries to the income of the principal earner or earners in the family and use some part of any additional income brought in by other members to buy on instalments goods which they need less urgently but which add appreciably to the comforts of living.

The influence of differences in income upon the proportion of consumers using the instalment method is only one direction in which this system affects the prudence of consumers in managing their financial affairs. More important in many ways is the influence instalment buying exerts upon the management of their expenditures by those consumers who make use of it. Tables 58 and 60 throw at least a dim light into this otherwise dark area.[10]

Income and Expenditures of Instalment Buyers and Nonbuyers.—Table 58 is built up from three sets of figures: (1) the average incomes, by income groups, of the consumer units which did and those which did not buy on instalments in 1941; (2) the average total expenditures of the same consumer units classified in the same way; (3) the average dollar value of merchandise bought on instalments during the year by the consumer units in each income group insofar as such purchases were reported in the schedules. The lower half of Table 58 shows the difference between various lines in the first half of the table, computed upon a percentage basis.

The first striking factor brought out by Table 58 is that users and nonusers of instalment credit differ markedly in general patterns of income and expenditure for goods and services. The table also shows quite clearly that, except at the two extremes of the scale, instalment users of any one income group on the average spend appreciably larger amounts for goods and services than do nonusers in the same income group.[11] The difference shown in expenditure cannot be attributed to

10 These tables have the limitations already discussed as arising from identification of "expenditures by consumers" with "entry on retailers' books." Their significance is also limited by the fact that they cover only one year in each family's history.

11 See footnotes 12 and 13 in the original source for a statement of the reasons why apparent differences in the dispersion of instalment buyers and nonbuyers within income classes, and the divergence of the two income groups at either extreme from the rule that instalment buyers spend more than nonbuyers, have no significance.

intragroup differences in income. At six of the seven income levels, where the expenditures of instalment families exceed those of noninstalment families, the differences in the expenditures are substantially larger than the differences in the income. At the highest of the seven levels, instalment consumers have higher expenditures and lower incomes than than noninstalment consumers. These figures thus tend to confirm the common assumption that instalment credit represents an addition to a consumer's purchasing power and makes possible purchases that (within the limits of a single year) he could not make from current income. It is clear, of course, that these conclusions hold only when any expenditure or purchase is counted, as in this table, at the date when the transaction is entered on the retailer's books.

Although these data indicate that the instalment plan leads those who use it to spend more for goods and services in any given year than those who do not use it, this should not be construed as indicating that the use of instalment credit automatically leads the average family to spend more for goods or services than it receives in income. In fact Table 58 reveals quite a different situation. For instalment buyers with incomes of \$2,500 or more (and this means, as Table 16 shows, for more than a third of all urban instalment buyers), expenditures over the entire year 1941, including instalment purchases, did not exceed income but most commonly fell well below it. For this section of the instalment public, instalment buying apparently was used as an alternative to interfering with savings rather than as a simple extension of purchasing power to keep expenditures for goods and services larger than current income alone could support. Only in the income levels below \$2,500 was instalment credit used by the average family in such a way as to permit its spending for the time being more than it received. It is to be expected, of course, that consumers at the higher income levels should have a greater degree of flexibility than those at lower levels in deciding how to allocate their incomes. They should have a wider range of choice among methods of paying for what they buy.

Excepting at the lowest income levels, nonusers of instalment credit in all income groups covered by Table 58 on the average held their expenditures within their incomes. One would expect the lowest income group to have an excess of expenditures over income, since it includes people wholly or partly dependent upon charity or relief and others in circumstances allowing some latitude in expenditures, such as families living in retirement or those whose income was abnormally low in this particular year.

It may be that much of the differences between instalment users and nonusers would be wiped out during a cycle in which, say, last year's instalment buyers become this year's nonbuyers, and the reverse. The

excess of income over expenditures for nonbuyers under such circumstances could be little more than a measure of what they are repaying on instalment contracts carried over from preceding years. To understand fully how instalment buying affects the relations of consumer income and outgo, a special survey covering a period of several years would be necessary.

Even at the lowest income levels the excess of expenditure over income, which characterized so many instalment buyers in 1941, is considerably smaller than the amount typically spent in instalment purchases. The average amount of purchases on instalments by consumers in the successive income groups rises as income increases. Computation of the excess of expenditure over income of the instalment users as a percentage of average instalment purchase shows that at the lowest level the average excess is about seven eighths as large as the average instalment purchase. At succeeding higher levels of income, this proportion falls off sharply.

It would thus seem that the great mass of buyers and sellers is considerably more prudent in these matters than the more severe critics of the instalment system would suppose. These data support opinions expressed by merchants interviewed in the course of the present study that although in normal times there is much advertising of easy terms, most of the actual buying (and this means both most of the transactions and most of the dollar volume) seems to be done by consumers on reasonably prudent terms. On the average they do not seem to exceed terms which pay out within a year. If a year is taken as the basic period for household accounting, most instalment buying can properly be considered a current expenditure, even though in many instances the purchase makes a considerable investment in future satisfactions. The importance of instalment buying must be sought more in the effects upon expenditures other than those for durables, and upon savings, than in the balance between income and outgo. Table 60 is designed to provide a start toward such an analysis.

The Relative Importance of Instalment Buying in Consumer Finances.—Before Table 60 is considered, two other comparisons made in Table 58 should be noted. The difference between the expenditures of instalment consumers and those of noninstalment consumers is considerably smaller for most income groups than the amount of the instalment purchases. This again gives some evidence that consumers use prudence in buying on instalments. Instalment purchases evidently are not a reckless piling up of future obligations upon a fully used income. As has been said, they are in large part accomplished out of current income.

TABLE 60

EXPENDITURES OF INSTALMENT BUYERS AND NONINSTALMENT BUYERS, AS A PER CENT OF INCOME, BY INCOME GROUPS

Item of Expenditure—for Current Consumption	Under $500		$500 and under $1,000		$1,000 and under $1,500		$1,500 and under $2,000		$2,000 and under $2,500	
	Instalment	Noninstalment	Instalment	Noninstalment	Instalment	Noninstalment	Instalment	Noninstalment	Instalment	Noninstalment
Automobile	11.9	4.4	11.9	2.3	10.0	4.7	10.2	4.8	16.2	6.9
Clothing	5.0	9.9	14.4	8.5	12.5	10.3	11.9	9.7	10.4	9.8
Furnishings and equipment	3.5	2.5	9.6	1.4	7.9	3.2	7.2	2.6	6.9	3.9
Miscellaneous	9.1	17.6	12.2	11.8	12.1	11.6	10.9	11.5	12.0	11.6
Household operation	2.8	6.8	2.3	4.7	3.3	4.1	3.1	4.8	3.4	3.9
Medical care	3.5	8.7	4.6	4.0	3.7	5.0	4.7	4.9	4.5	5.1
Fuel, light, and refrigeration	11.6	9.6	6.3	6.2	5.7	5.7	5.5	6.0	5.0	4.7
Housing	19.9	23.9	12.7	19.0	15.3	16.8	13.1	14.0	14.1	13.0
Food	35.5	56.2	37.2	40.4	34.3	35.0	33.7	31.0	28.5	29.2
Gifts, contributions, welfare, religion, and personal taxes	8.4	6.5	0.8	4.8	3.2	4.0	3.5	4.3	3.7	4.5
Total expenditures as per cent of income	111.2	146.1	112.0	103.1	108.0	100.4	103.8	93.6	104.7	92.6

Item of Expenditure—for Current Consumption	$2,500 and under $3,000		$3,000 and under $5,000		$5,000 and under $10,000		$10,000 and over	
	Instalment	Noninstalment	Instalment	Noninstalment	Instalment	Noninstalment	Instalment	Noninstalment
Automobile	12.6	7.3	14.0	7.3	14.2	6.3	7.7	6.9
Clothing	10.8	11.3	12.0	11.3	13.7	9.9	4.8	8.6
Furnishings and equipment	7.2	4.6	8.1	4.5	6.4	2.4	3.4	1.9
Miscellaneous	12.4	12.6	11.3	12.5	13.1	13.4	7.3	11.6
Household operation	3.7	3.9	4.6	4.3	4.1	4.2	4.7	6.4
Medical care	3.4	3.1	3.9	4.2	3.8	4.0	4.3	2.3
Fuel, light, and refrigeration	4.3	4.3	3.8	3.7	3.3	2.6	1.4	2.2
Housing	11.7	12.6	10.5	10.2	4.8	9.5	8.1	7.9
Food	29.7	30.4	25.7	25.3	27.7	19.7	11.9	13.7
Gifts, contributions, welfare, religion, and personal taxes	4.2	4.7	4.1	6.0	3.8	6.8	10.6	12.4
Total expenditures as per cent of income	100.0	94.8	98.0	89.3	94.9	78.8	64.2	73.9

Source: R. Cox, *Installment Buying by City Consumers in 1941*, p. 19.

The last two lines of Table 58 indicate the relative importance of instalment purchases in consumer finances. At the lower levels of income, instalment buying plays a much larger part in the family finances of its users than it does at the upper levels. Here again is an indication of what merchants mean when they say that instalment buying is the "poor man's charge account." The strain imposed by the buying of durables upon the family budget is considerably greater at the lower than at the higher levels of income. In the absence of this credit instrument, the use of durables by low-income families would be correspondingly delayed. Since life expectancy is certainly no longer at low levels of income than at high, the time utility provided by instalment buying must be correspondingly great.

Expenditure Patterns of Instalment Buyers and Nonbuyers.—Table 60 is designed to show what important differences there are in the ways users and nonusers of instalment credit distribute their incomes among the major categories of consumer goods, gifts, and taxes. Those categories one would expect to be affected directly by instalment buying are put at the top. Those one would expect not to be so affected are put below the "miscellaneous" group.

The most important comparison for present purposes is between instalment and noninstalment consumers in the same income bracket. Among the types of goods commonly bought on instalments, two—automobiles and furnishings and equipment—have a uniform pattern. At every income level the percentage of income spent for such goods by instalment buyers is substantially greater than that spent by noninstalment consumers. In other words, even at the highest income levels in 1941 consumers were predominantly unable or unwilling to pay cash or to arrange other bases of payment in buying these goods. Clothing shows the same general situation in all the lower income brackets except the very lowest, but the pattern for consumer units with an income of more than $2,000 is irregular. This conforms to the common opinion that the purchase of clothing on instalments is a practice primarily of low-income buyers. Upper income consumers can pay cash or buy on charge accounts.

The difference, especially at the lower income levels, between the amounts spent by instalment buyers and the amounts spent by noninstalment buyers for automobiles and for furnishings and equipment makes it clear that for most consumers the choice lay between buying on instalments and doing without in that year. It is noteworthy, furthermore, that as incomes rise, the proportion of purchases on bases other than instalments rises. These facts tend to confirm the opinion often

expressed during the war that restrictions on the use of instalment credit bear more heavily upon the poor than upon the rich.

The remaining parts of Table 60 are useful in the present study for the light they throw upon the adjustments made by consumers in other expenditures when they buy on instalments. The limitations of the data must be kept in mind when they are used for this purpose. Important adjustments can be made in budgetary items that lie entirely outside this table. Decreases in monetary savings, for example, may make instalment purchases possible without adjustments in other expenditures. So also adjustments in other expenditures may be postponed for shorter or longer periods by purchasing on long terms, and with small down payments, or by defaulting on obligations.

Within these limits of usefulness, the data present one interesting and significant fact: There does not seem to be any small group of expenditures upon which the adjustment is concentrated. Insofar as adjustments are made within the limits of expenditures for goods and services, they seem to be spread pretty well throughout the entire list in about the same proportion that the noninstalment expenditures themselves are distributed.

The Influence of Instalment Buying Upon the Value of Automobiles Bought.—Further light is thrown upon how instalment buying affects the financial prudence of consumers in an analysis of automobile purchases by Plummer and Young.[12] Since their figures are for 1934, and since they came from the records of only one finance company, they are not reproduced in full here, but the principal conclusions they support are well worth repeating.

As would be expected, the average cash selling price of the car bought rises as income rises. So do the average unpaid balance and the average monthly payment. The increase in each item characterizes both new and used cars, although the percentage increase from low to high is substantially larger for used cars than for new ones. For each item the increase, as consumers are followed up the income scale, is substantially smaller than the corresponding increase in income itself. Again it seems indisputable that instalment buying does not lead consumers to enlarge their investments in consumer durables in proportion to the increase in their purchasing power.

Plummer and Young found that the customers of the particular company they studied conformed to the general pattern of consumers in that the purchase of automobiles on instalments was concentrated heavily in the lower-income classes where the bulk of the population was con-

[12] W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, tables on pp. 89, 90, and accompanying comment.

centrated. This concentration was considerably more marked for used than new cars; 84 per cent of the used car buyers had incomes below $200 a month, as contrasted with 53 per cent of the new car buyers; and 95.1 per cent of the used car buyers had incomes of less than $300 per month, as contrasted with 79.2 per cent of the new car buyers.

For most of these buyers, the value of the car bought represented a relatively small part of a year's income. Consumers with incomes of $100 or less per month who bought new were an exception; they bought cars whose cash price represented nearly 10 months' income. In no other class did the cash price of the new cars bought exceed 5.2 months' income, and the average for all buyers of new cars was 3.4 months' income. Among buyers of used cars, the average cash price ranged from 3.5 down to only 0.8 months' income for the various income classes. For the entire group the average was only 2.2 months' income. The unpaid balance on new cars ranged from 6.0 months' income for buyers at the lowest income level to 0.9 months' income for buyers at the highest. It averaged 2.1 months' income. Correspondingly, the prices of used cars ranged from 2.3 down to 0.5 months' income and averaged 1.4 months' income.

In other words, the idea often expressed that instalment buyers bury themselves under mountains of debt simply is not true insofar as automobiles are concerned. Whether because of their own prudence, or because of the limitations put upon them by the sellers, the overwhelming majority of these buyers restricted themselves in buying cars to debts representing, on the average, somewhere between half of one month's income and a little more than three months' income.

The ratio of monthly payment to monthly income is the most disturbing item in Plummer and Young's figures. Apparently more than half of the buyers of new cars and nearly a third of the buyers of used cars were willing, and were permitted by sellers, to tie up on the average from a quarter to nearly a half of their monthly incomes in the purchase of automobiles for periods ranging from 10 to 13 months into the future. The costs of operating and maintaining the car undoubtedly raised the automobile expenses of these buyers to what looks from the outside like a dangerously high figure. This is true even after allowance is made for the facts that many of the low-income group were not entirely dependent upon their own income for support, that these figures covered agreed rather than collected terms, and that collections undoubtedly lagged somewhat behind the agreements.

The very heavy automobile expenses are found chiefly at the lowest income levels. At levels ranging upward from $200 a month, the monthly payment averaged between one sixth and one twentieth of a month's income on contract lengths ranging from 9.6 to nearly 13

months. Because of the better situation at upper-income levels, the average ratio of monthly payment to monthly income for the entire group was 0.16 on new cars and 0.14 on used cars. Contract durations averaged 12.7 months on new and 9.6 months on used cars. It seems fair to judge, however, that at the lower levels of income the automobile industry in the middle 1930's was pushing consumers, and consumers were permitting themselves to be pushed so far as to carry many of them beyond the levels of prudence. The relatively high repossession rate for automobiles discussed in Chapter 17 may be attributable in part to this policy.

Instalment Buying and Saving.—How instalment buying affects consumer saving is another aspect of the relation of instalment buying to thrift that needs more factual study than it has thus far received. We have already considered the extent to which instalment buying itself may be considered a form of saving. The point requires no further discussion here beyond a reminder that even if the instalment buyer acquires valuable assets he does not save when he wears them out faster than he pays for them or when he lives beyond his means and meets his payments out of past monetary savings, further loans, or defaults on other obligations. There is much interest, however, in the further question whether instalment buying tends to break down saving by consumers in the more conventional sense.

The available evidence indicates that it does not. Consumers, as a group, accumulated great savings in reserves under insurance policies, savings accounts, and the like during the very period when instalment buying made its greatest growth. Even in years when they buy on instalments, many individual consumers have a net accumulation of other savings. There is a good deal of evidence to indicate that instalment buyers as a class will not readily interrupt their other savings in order to pay cash for goods they can buy on instalments. Most of them apparently are reluctant even to borrow against their other assets in order to buy goods. In fact some writers criticize them severely for paying "unnecessarily" heavy charges in order to avoid jeopardizing their other savings. It certainly is mistaken to assume casually that all consumers who buy on instalments do so because they have no alternatives.[13]

The Balance Between Credit and Goods in Instalment Buying.— The criticism that instalment buyers pay too much for credit can be interpreted as an attack on their rationality and prudence. We have seen

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[13] On these various points see B. Bernstein, *The Pattern of Consumer Debt*, p. 110; R. Cox, *Installment Buying by City Consumers in 1941*, especially Table 4; George Filipetti, in *Conference on Consumer Credit in the National Emergency*, p. 5; L. R. Foster, *Credit for Consumers*, pp. 6, 7, 23; H. W. Huegy, *An Economic Analysis of Instalment Credit*, p. 6; and W. B. Mors, *Consumer-Credit Theories*, pp. 56, 57.

that they are frequently criticized for failing to make the best available buy of credit itself and for buying too much credit service as contrasted with the goods included in the bundle they acquire from the dealer. We have already considered at length the difficulties involved in measuring credit service charges and in determining whether they are in some sense "too high." Much of the debate tends to exaggerate the importance of the problem to consumers. Critics of instalment buying often talk of a very high percentage charge when the absolute amount of dollars and cents is very small. On the other hand it is quite common to find consumers scolded because they make little response to substantial differences in the dollar amounts of charge imposed by different financing agencies.

The last column in Table 34 throws light on the second of these problems. It shows that on items of relatively large unit price even a substantial change in the finance charge makes very little difference in what the consumer presumably thinks of as being his "price"—that is, the cash price for the goods plus the finance charge plus the fee for insurance. In the 15 years covered by Table 34 the index of finance charges ranged between a low of 81 and a high of 124. In the same years the index of the gross time price ranged between a low of 98 and a high of 102. This table assumed a constant cash price of $600 for the car. It shows that so long as the unit price of the car itself stays unchanged, fluctuations in carrying charges have little effect.

If maintenance and operation are added to the cost the consumer must consider in deciding whether to buy or not, the carrying charge becomes even less important. The consumer is quite right, one would think, in putting the emphasis where he does (upon the aggregate price and especially upon the net price after allowance for the trade-in) rather than upon the carrying charge. Furthermore, he may not be particularly foolish in refusing to bargain very closely on credit service charges. The difference among offers may readily fall within his range of indifference, or he may find the monetary difference too small to pay him adequately for the effort of shopping around. This is true even though a seller who takes advantage of small margins of indifference from many customers may reap a very substantial aggregate profit.

On purchases of relatively low unit-value and relatively high credit-charge, the situation may be quite different. Here too, however, the differences between sellers as regards the credit service charge they impose probably is not so great as is the difference between the cash price and the credit price at the lowest available level of charges for credit.

Instalment Buying and the Stability of Family Finances.—Beyond the question whether the instalment system has been built upon a foun-

dation of consumer irrationality and itself tends to make consumers less rational lies another broad problem that must be touched briefly: Has instalment buying tended to weaken the financial stability of the American family? In dealing with this question one must avoid the fallacy implicit in the familiar analogy of the straw that breaks the camel's back. Obviously the entire load does the damage, not the last unit. In any real situation to which the analogy is applied, the most serious damage may have been done by earlier units. Instalment debt is thus not to be blamed for a family's predicament because it happens to initiate the formal procedures that precipitate matters.

As has already been suggested, instalment buying plays an integral part in the life cycle of a consumer's earning and spending. Unfortunately there are no adequate factual studies of these life cycles. Bigelow gives some assumed examples, but these serve better as a guide to possible research than as a statement of what has been done.[14] He expresses the belief, however, that if such studies were made they would show that most families during their lives pass over a major peak of heavy expenditure and several minor ones. Intelligent use of credit as a device for meeting these peaks of expenditure may contribute to maintaining rather than to breaking down family stability.

Consumers must choose among satisfactions because they have limited incomes. They must choose not only between kinds of satisfaction but also between times of satisfaction. This can be put another way by saying that the "present" a fully rational consumer must consider in making his choices is not the conventionally assumed instant but a long period, perhaps his entire life. "Present" choices must be evaluated as part of a pattern extending from the present instant through a future lifetime of uncertain length. How fully rational consumers are in this sense remains to be discovered.

More amenable to study is the specific question whether instalment buying plays an important part in the financial difficulties of consumers whose troubles come to the notice of remedial and other agencies. As we have already seen in chapters 19 and 21, the available data indicate, though they are too fragmentary to prove, that relatively few families get into serious difficulties directly because of unwise buying on credit. It is true that an appreciable proportion are subjected to severe collection procedures, and a good many lose goods through repossessions and giveups. There is no evidence, however, that instalment buying as such plays any large part in putting families into a condition such that they must turn to relief agencies for aid and rehabilitation, although it is

[14] H. F. Bigelow, "Consumption Unit of Society in the Family," in 196 *Annals of the American Academy of Political and Social Science*, p. 16 (March, 1938).

present in a good many cases as one factor among several and from time to time is the specific factor that brings the difficulties to a head.

Whether the benefits instalment buying brings to those who use it with reasonable competence are worth its ill effects upon those who have difficulty in controlling it is an almost unanswerable problem. Even if all the necessary information were in, it would be difficult to decide how much the competent majority should be asked to give up in order to avoid the ills suffered by the incompetent minority. This is a familiar social dilemma. One can say safely only that a better judgment will become possible with the collecting of more facts.

PART IV

INSTALMENT BUYING AND THE FUTURE

CHAPTER 26

THE OUTLOOK FOR INSTALMENT BUYING

As this study nears completion, three principal factors dominate the outlook for instalment buying. One is the appearance of efforts to improve the social and economic effectiveness of instalment buying through some combination of self-regulation by business and governmental control. Second is the American economy's demonstrated capacity for, and need of, sustained operation at high levels of production. Third is the development of very rigorous competition among financing agencies for shares in the instalment business, and especially the apparent determination of commercial banks to enlarge their direct participation in consumer credit. In this closing chapter we shall examine the light these factors throw upon the prospects for instalment buying and the volume it is likely to attain.

Self-regulation Through Trade Organizations.—At least one trade association with a specialized interest in instalment buying has been organized. The interest of other trade and credit organizations whose fields overlap this one has been quickened. Thus the machinery has been provided for determined efforts at self-regulation during coming years. Of particular interest is the recognition by retailers that the function of providing the instalment credit service provides a common interest cutting across the more familiar commodity and trade lines. With common problems thus brought to light, it is probable that joint efforts to solve them will be more frequent and more effective than in the past.

The work of such groups is being pushed in many directions. Important among them is the development of statistical and accounting information and procedures designed to increase the efficiency of management in this field. Recent years have seen a tremendous expansion of knowledge concerning instalment selling. There is every likelihood that this body of knowledge will be further expanded, refined, and put to use as time goes on.

Trade organizations may also be expected to develop on a much broader scale efforts heretofore made chiefly by local groups to improve business standards. Cooperation in eliminating objectionable and definitely injurious practices is an example. Another is the improvement

of instalment contracts so as to make them less subject to abuse by unethical sellers, and hence to attack by unfriendly critics of the instalment system. These efforts are already being made through such organizations as the Retail Credit Institute of America. By force of recommendation and example these groups, as time goes on, will almost certainly induce a great many instalment sellers to abandon the antiquated contract forms that make the appearance of instalment selling so much worse than its substance. This is true, even though they probably will not try to achieve any high degree of uniformity in contract forms.

An important start also has been made toward educating consumers in the efficient use of instalment buying. Here again the Retail Credit Institute of America should be mentioned, as should the National Consumer-Retailer Council, which was organized to provide opportunities for retailers and consumers to talk out their mutual problems. Also noteworthy is the 107-page booklet, *Using Consumer Credit,* published in 1947 as Unit Number 9 in *The Consumer Education Series* sponsored by the National Education Association. Particularly significant is the fact that these newer materials for consumers take the attitude that instalment credit is a useful tool to be handled skillfully. They stand in sharp contrast to the consumer materials of prewar days which commonly took the position that instalment credit is dangerous, that consumers would do well to avoid it, and that they should use it, if at all, with a full appreciation of its many pitfalls.

Government Controls.—Except for the persistent effort of the Federal Reserve Board to extend the wartime restrictions embodied in Regulation W, the postwar years have as yet seen no very strong demand for the establishment or extension of governmental controls over instalment buying. This is true both at the state and at the Federal levels of control. The situation is quite different from that prevailing before the war, when a number of states adopted fairly comprehensive controls, as we have seen, and when there existed in narrow but influential circles a confirmed conviction that something even more drastic would have to be done.

Whether there will be a revival of these pressures for strong regulation probably depends chiefly upon the extent to which the instalment trade proves to be willing and able to police itself. We have seen that the more serious abuses of the instalment system are committed by a very small minority of sellers. So long as the minority remains small and the instalment trade gives evidence of recognizing its responsibility in the matter and of trying honestly to eliminate the abuses, the pressure for governmental action presumably will remain small. One can hardly doubt, however, that if the abuses at some future time become common

enough to give the impression of being general, governmental action will follow. Precedents have been established in the Federal government's wartime controls, in state laws passed by a few legislatures, and in the extremely rigorous British Hire-Purchase Act; they can easily be followed.

An aspect of the instalment selling that offers excellent opportunities for effective cooperation between instalment sellers and public authorities is in the handling of consumers who get into serious difficulties over their debts. Although small in number, these cases are conspicuous in the eyes of many influential people. A great deal has been written about them, and particularly about those already discussed as pathological debtors. A number of experiments have been made with handling their problems, but much still remains to be done toward working out systems of identifying such debtors early in their careers, devising checks that will be effective in keeping them out of trouble, and rehabilitating those who get into difficulty.

One area in which the Federal government can be expected to maintain a lively interest is that of the part played by instalment buying in the business cycle. The problem of controlling economic fluctuations is admittedly one of the major social problems of the day, and the people of the country have put a substantial responsibility for doing something about it upon the shoulders of the Federal government. In voting to eliminate the Federal controls over consumer credit, Congress did not attempt to come to grips with the problem of the business cycle. Nor did it deny to the President any presently existing powers to declare a national emergency and proceed as the statutes may provide in such periods. Presumably, definitive action on this problem must wait until there is a stronger demand for it and a clearer idea of the forms it would take.

Significant Influences of the Second World War.—More important as of early 1948 than these problems of control in their influence upon the outlook for increases in the volume of instalment buying were:

1. The amount and distribution of liquid assets accumulated by consumers during the war and immediately afterward.
2. Changes in the level of the national income and in its distribution among the people.
3. Changes in the size and geographical distribution of the population.

Since the first of these factors must soon become of historical interest alone, it could be passed over entirely without affecting conclusions as to the outlook for instalment buying very seriously. It nevertheless de-

serves brief attention because its significance for instalment buying was debated vigorously and at great length for several years.

Proponents of continuing Federal regulation into the indefinite future used the existence of these very large accumulations of liquid assets as a supporting argument. As of June 30, 1946, the Federal Reserve Board estimated that personal holdings of Government bonds, time and demand deposits, and currency totaled $152 billion dollars. Later estimates indicate that although their rate of growth slowed down thereafter, they continued to expand well into 1947. Officials of the board have seen in the accumulations an important inflationary force that makes it imperative to prevent the creation of additional spending power through liberal instalment terms. Opponents of regulation have argued that the assets are not likely to be important inflationary forces in the durable goods markets because consumers will not spend them freely. Furthermore, they have argued that the assets are very unequally distributed so that it would be unfair to restrict the purchase of durables to those who have them. As of late 1945, the board estimated that whereas 30 per cent of the consumers at one end of the income scale held 87 per cent of the liquid assets, 40 per cent of the consumers at the other end of the income scale held only 1 per cent. Later estimates indicate that the differences between families at upper-income levels and those at lower levels widened still further in subsequent years.

The present volume omits a detailed consideration of this controversy because by the time it comes from the press many of the questions probably will have answered themselves. Pertinent facts about the accumulation of liquid assets in this period may be found in issues of the *Federal Reserve Bulletin* and the *Survey of Current Business* from 1943 on.[1] Any long-run effects from this accumulation of savings presumably will take the form of permanent changes in the relation of expenditures for goods and services to consumer incomes. A number of economists have argued that, with these assets in their possession, consumers in the aggregate probably will spend a larger proportion of their incomes for goods and services, and save a smaller proportion. In due course the question will answer itself. Whatever the answer turns out to be, there is no reason to suppose that any change of this sort in spending habits will have a considerable effect upon the proportion of durables bought with the aid of the instalment system.

The National Income and Its Distribution.—An obviously crucial factor in the prospects for instalment buying is the level of the national

[1] See, in particular, H. H. Villard and D. McC. Holthausen, "A National Survey of Liquid Assets," 32 *Federal Reserve Bulletin,* pp. 574–580, 716–722, and 844–855 (June, July, and August, 1946); "Slackened Growth in Liquid Assets," 32 *Federal Reserve Bulletin,* p. 1221–1229 (Nov., 1946); and D. McC. Holthausen, "Survey of Consumer Finances," 33 *Federal Reserve Bulletin,* pp. 647–663 (June, 1947).

product.[2] Many different guesses have been made as to what that gross output will be in coming years, but there is no serious disagreement with the prophecy that at its peak it will rise to new high levels. Furthermore, no one seriously questions the principle that any such level of employment and output cannot be reached and maintained for long in our society in the absence of a very large output of durables.

The redistribution of income, brought about partly by the war but also by intensifying developments of the preceding decade, seems to have been of a nature that will tend to expand the demand for durables. This is true, especially of the redistribution of so-called disposable income, that is, income over and above personal taxes paid by individuals. Thanks to the expansion of wages and the increase in the number of employed, on the one hand, and to the steepening of the rate of regression of income taxes, on the other, disposable income is concentrated much more heavily in the middle levels of income than before the war. At the same time, farmers are receiving a substantially larger proportion of the total income of the country. The effects of this change in the economic position of farmers upon their ability to buy durables are reinforced by the progressive electrification of rural areas, which increases the number of potential users of the larger household appliances.

Insofar as the changes in the distribution of disposable income prove to be permanent, they will presumably affect the expenditure patterns of the country's consumers appreciably. Both because wartime restrictions on the output of durables have continued to distort postwar demand, and because it takes time for a family to change its spending pattern when it shifts from one income level to another, the full effects of these shifts will be felt only over a period of years. If the ultimate effect of the war turns out to be a speeding up of the tendency for incomes to level off from either extreme toward the center, the instalment system will presumably be greatly affected because, as we have seen, the consumers in the middle-income ranges are the heaviest instalment buyers.

The Output of Consumer Durables.—As to the proportionate importance of consumer durables in the enlarged national income, there is every indication that it will expand. All the available data show a very high degree of stability in expenditure patterns of families at given levels of income.[3] This normal influence of an expansion in consumer

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2 The most careful estimate of this country's capacity to produce and consume goods thus far made is the monumental study by J. Frederic Dewhurst and others, *America's Needs and Resources*, New York, the Twentieth Century Fund, 1947. It estimates the requirements and the productive capacity of the country by classes of good for 1950 and 1960.

3 See, for example, W. H. Shaw, "Consumption Expenditures 1929–1943," 24 *Survey of Current Business*, No. 6, pp. 6–13 (June, 1944), and L. J. Paradiso, "Retail Sales and Consumer Incomes," 24 *Survey of Current Business*, No. 10, pp. 5–14 (October, 1944).

incomes upon purchases of durables will presumably be reenforced by any number of other important factors. For some time the output of durables must be directed not only toward building up the consumer's investment to levels commensurate with higher levels of income, but also to replacing the parts of the consumer investment wasted away during the war. Although specific figures are not available and could be accumulated only with very great difficulty, there is no doubt that the store of unused utilities in consumers' holdings of durables was reduced sharply after 1941 and had not been fully rebuilt by 1947.

The aggregate production of and investment in durables presumably will be made higher than they were before the war because of another very important factor. This is the growth of the population. The number of people and the number of families in the country are both substantially larger than they were before the war. Even if the per capita holdings and per capita expenditures were to remain as they were before the war, the aggregate figures would be appreciably higher. The influence of this factor will presumably be intensified by the large geographical shifts of population of recent years. These have created a need for household equipment in many new homes.

Many important factors thus combine to support the conclusion that consumers in the aggregate, will want to hold in coming years a stock of durables substantially higher than they held in prewar years, and that the output of durables must be correspondingly larger. Whether this influence will be strengthened by a tendency for the holdings of individuals to expand cannot be readily forecast. Too little is known concerning the forces that determine the amount of stock consumers want to hold to permit very confident judgments.

Instalment Buying of Consumer Durables.—Unless the probable increase in the output of durables is offset by a counteracting trend toward reduction of the proportion of durables bought on instalments or by direct Governmental restrictions upon either output or credit, one must conclude that volume of purchases on instalment and the volume of outstandings under instalment contracts are due to rise to much higher levels in coming years than they have ever before achieved. We have seen that the war and wartime restrictions, although they affected terms greatly, had less influence than is sometimes supposed upon the extent to which consumers used instalment buying to acquire such durables as were available. The wartime experience thus reinforces the conclusion that great increases in the production and sale of durables will carry instalment buying to new heights. In fact it serves to fortify the conclusion already reached in this study that, given consumers and their

ways as they have been in this country, large production and large sales of durables are impossible without a large use of the instalment plan.

It is necessary to be somewhat less positive as to what will happen to outstandings under instalment sale contracts. The war years substantially shortened average terms and reduced outstandings. If merchants insist upon substantial down payments and short repayment periods, even a large increase in instalment purchases will not carry outstandings far above the levels they reached before the war. It is extremely doubtful, however, whether either voluntary or governmental controls over terms and down payments can withstand the pressure for the aggressive selling that will be required to move goods in the volume contemplated. It seems unquestionable that there is a definite relationship between the aggregate income of the consumers and the amount of instalment debt that they will assume, as well as between the aggregate purchases of durables consumers make and the amount of credit they require in order to make these purchases. It seems safe to conclude, further, that these relationships are fundamental enough to have survived through the war period.

Insofar as the mechanics of budgeted payments spread to sales of soft goods, a further force will be operating to expand the use of this system in consumer buying. It should be noted because of its possible effect on the statistics, although its economic significance may be small. The economic functions of short-term credit will not be changed merely because credit men find it desirable to collect charge accounts in periodic payments scheduled over terms of three months or less.

Problems of Market Saturation.—At some time, market saturation for individual durable goods will again make its appearance. The years beginning with 1942 very substantially reduced the stock of utilities embodied in durable goods held by consumers. That stock must at least be rebuilt and probably will have to be carried to new magnitudes. There is no reason to believe that anyone will work out a plan to hold production at rates equivalent to the replacement rates required when the consumers' stocks of the various durables eventually reach the levels at which the consumers of the country want to hold them. Even if someone could compute the correct rates, with proper allowance for changes in consumers' ideas concerning the size of the stocks consumers want to hold, putting them into effect would require rationing and price controls that the people of this country would not be likely to accept easily. Difficult adjustments seem almost inevitable. They will not be wholly avoided even if new products appear to take the place, in the productive scheme, of the old ones whose markets are saturated, since

shifts of capital, labor, and resources from old to new industries are not easy.

Instalment buying faces an important danger in that governmental agencies who see no chance of putting into effect really effective controls may convince themselves that restrictions on instalment buying provide at least a partial control over these difficulties. This is true particularly because alternately tightened and loosened restrictions on instalment credit so nearly fit into the pattern of current fashions in cycle theory.

If the issue arises it will be necessary to remember the conclusions to which we have already come, especially in Chapter 24, that controlling the volume of instalment buying is more likely to determine the level at which the consumers' stock eventually settles than the rate at which any given stock is built up or the smoothness of the transition from production for growth to production for replacement; that either with or without instalment buying and either with or without control of credit, industries must move at some point from production of durables for replacement plus expansion of a growing consumers' investment, to production for replacement alone, or at most replacement plus a very small expansion occasioned by the growth of the population; that control of instalment terms will not take up the slack in employment that will be inevitable if production is for replacement only; that setting limits on down payments under instalment contracts is no adequate substitute for effective controls over the creation of spending power by the banks and the Treasury; that a large production of durable goods cannot be achieved without creating substantial purchasing power; that insofar as instalment buying can be used to control expenditures for durables it is likely to be a one-directional force operating more effectively to reduce the number of units of goods bought by consumers in good times than to expand them in bad; and that rationing any volume of output, according to whether or not the buyer can afford to pay cash, is not likely to seem particularly equitable to those eliminated from the market.

Conclusion Concerning the Probable Volume of Instalment Buying.—How far the volume of instalment buying will rise depends in part upon nothing more than what happens to the price level. Although the situation is too confused and volatile to permit confident predictions even for the few months that must elapse between the writing and the printing of this study, one thing seems clear. There is every indication that prices will eventually settle at levels substantially above those of prewar, however much they may fall from wartime peaks. If this should turn out to be true, the dollar volume of durables produced and distributed must inevitably climb to new high levels. The effects of higher prices, added to those of increases in output, in the population, in

levels of income, and in the stock of consumers' durables lead inevitably to the conclusion that instalment outstandings will move to a new high in coming years.

We have already seen that by the middle of 1947 consumer credit of all kinds had achieved the largest aggregate in its history, exceeding $10 billion for the first time. This was done while instalment-sale credit continued to lag behind the recovery made by other types of credit. Instalment sales were expanding rapidly, however, and gave every indication of catching up soon. So even conservative prophets were predicting that outstandings of consumer credit of all types would reach at least $15 billion; more enthusiastic ones were talking of $20 or $25 or even $30 billion.

Competition Among Retailers and Differential Pricing.—As to the organization and management of instalment selling, the prospects are for strong competition, both for consumer patronage in the sale of the larger durables and for the financing of instalment transactions. A very important aspect of the competitive struggle now shaping itself concerns the position of the so-called credit retailer as contrasted with other retailers. We have already seen that the credit retailer is not easily differentiated from other retailers; in the future the lines of demarkation are likely to become even more blurred.

There is a strong insistence that credit and goods should each yield its separate profit separately. Managerial policies based on this point of view are likely to spread, with resultant important shifts in competitive positions and techniques. As we have seen, the argument that selling credit and selling goods are two different businesses, each of which must stand on its own feet profitwise, has little merit in principle. It nevertheless has some utility as a tool of management, especially in trades where credit is now generally available, where cash lenders compete vigorously for the financing business, and where competition has made impossible the very high margins some stores have obtained in the past. If, under conditions of severe competition, consumers accept a given price when it is stated as a price for goods plus a charge for credit more easily than when it is stated as a single comprehensive price or as a "credit" price subject to a discount for "cash," this system will take the field. There is little doubt that quotation of the cash price, with a carrying charge described merely as "moderate" or "nominal," gives a superficial appearance of being lower than a full credit price. The problem is essentially one in the psychology of sales promotion. A difference that is meaningless statistically is often extremely important in market strategy. It also is important in its effects upon selling to "cash" customers, since it redistributes the retailer's costs in their favor.

The choice of a pricing system for credit sales, it must be said again, is merely one aspect of the retailer's larger problem of differential pricing in accordance with the service rendered to individual consumers. There has been much criticism of uniform prices that do not allow for apparently substantial differences in cost, but it is by no means clear how the situation will work itself out. The "bundle" of goods and services offered by any retailer must continue to be a complicated one. No one has as yet devised a completely satisfactory way of separating out the costs imposed on the retailer by one customer or one transaction or any other single unit of business as contrasted with another part. The relation of prices to costs in individual transactions or classes of transaction must therefore continue to be somewhat uncertain.

Meanwhile it seems clear that in most fields of instalment retailing the opportunities for very rapid expansion at relatively high margins by aggressive merchandising of credit, as distinct from goods, are no longer what they used to be. Since nearly all stores handling durables offer credit automatically, competition must turn on the other services offered, the quality of the credit service specifically, and, most important of all, the goods themselves.

Competition for Shares in the Consumer's Dollar.—Also affecting the outlook for credit retailing is the ever-present competition among retailers for shares in the consumer's dollar. One important aspect of this competition is the continuous struggle between diversification and specialization as principles of management and operation in retailing. Another battle is under way in the long struggle that has at one time or another favored the general merchandise store as against the specialty store, or the specialty store as against the department store, or the chain stores as against the single store operator, or the retail organization with operations spread over a wide area as against one that concentrates its work in a particular trading center.

In instalment selling the form taken by this struggle now is the evident determination of organizations that have concentrated upon cash and charge sales in the past to take over a substantial share of the instalment field. Even before the war department stores and mail-order houses were aggressively developing their instalment business. The development had not extended into all important trades and is not likely to do so in coming years. There is no indication, for example, that automobile distribution will shift out of the hands of the highly specialized agencies that have held it in the past. On the other hand, efforts by various organizations, including some of the larger variety chains, to break into the appliance business will necessarily be reinforced by aggressive instalment selling.

Whether the instalment business in furniture and jewelry will also be developed aggressively by the general merchandise retailers of various kinds, and whether credit selling will be aggressively developed by cash houses, remains to be seen. The mail-order houses have invaded the jewelry field very aggressively, and will undoubtedly try to capture a large part of the field. Furniture retailers may also face aggressive competition in which credit becomes a relatively unimportant weapon because everyone offers it.

Competition Among Financing Agencies.—Another aspect of the instalment selling field likely to produce a strong competitive battle in the coming years lies in relations between retail merchants and financial agencies as lenders to the consumer. To some extent this is a struggle to determine the channels through which credit flows to the ultimate consumer from the general money market, which, as we have seen, provides a large part of the capital used. To some extent, however, it is also a struggle to determine whether the funds needed to support instalment buying shall come from the general money market or be provided by specialized groups of investors, such as owners of retail stores.

Some cash lenders maintain that credit should be a strictly financial operation formally divorced from other aspects of retailing. A few students also hold that the specialized credit agency is best for the consumer. Only through specialization, they hold, can consumer credit be organized systematically to achieve maximum efficiency and minimum cost and maximum service. Some retailers, whose trade in the past has fallen largely outside of the field of consumer durables, express a similar opinion.

Some retailers who take this point of view, whether for these or for other reasons, have lived up to their opinions by cooperating in plans of various types with banks or other financial agencies. More experiments apparently are being planned. In some communities groups of stores and groups of banks are, at least on paper, cooperating to set up community-wide plans. It remains to be seen how far these plans will develop, and how effectively they will work out in the competitive struggle for consumer patronage. It also remains to be seen whether effective coordinated plans can be put into effect without encountering serious legal problems, notably under the antitrust laws.

Although many banks have expressed an intention to extend their participation, most of them apparently still find their principal interest in acquiring instalment paper through the retailer rather than in dealing directly with the consumer. Insofar as they want to eliminate the financial middleman, it seems to be the finance company rather than the retailer whom they have in mind. There is also reason to believe that the

interest of the banks (like that of the sales finance companies) will be centered primarily upon the relatively large-unit transactions. This means, in practice, that they are likely to go further in the direct financing of automobiles and larger appliances than in furniture, jewelry, or clothing.

The attitude of the retailers seems to vary. Most well-established credit firms with large resources will no doubt continue vigorously to oppose direct participation by financing agencies, or even indirect participation through the selling of their paper to the banks. Others, and this is true particularly of smaller merchants who have little capital and little interest in credit as such, are happy enough to pass the whole problem over to the lending agencies.

Competitive Pressure for Lower Charges.—Insofar as the competition is over direct dealings with consumers, it can well be described as a struggle between one-stop and two-stop retailing. Although stores have worked out systems under which banks or other cash lenders maintain representatives on the premises, in practice direct financing of the consumer is likely to involve trips to and negotiations with both the retailer and the financing agency. Whether the consumer will find it more onerous to visit the office of a cash lender than to go to the credit office of the retailer himself, only the consumer can tell, and that chiefly by his actions. If he gets an adequate reward in the form of a reduction of the charge and is not forced to sacrifice too many desirable services, presumably he will accept the offer.

The solution is likely to turn in the end upon relative costs. Credit retailers have maintained for many years that relatively few of the apparent costs of credit would disappear if the credit operation were dropped. If the consumer who goes to a bank is asked to pay the full cost to a bank plus part of the cost to the store, the two-stop system may prove to be competitively impossible.

It seems certain that the next few years will see a continuation of the severe competition of the immediate prewar period as answers to such questions are hammered out in the heat of competition. We have seen above that instalment credit was extremely profitable to many organizations before the war. With capital plentiful and money rates held at very low levels both by its abundance and by the fiscal operations of the government, charges were subject to heavy pressure even before the war. The war increased the pressure, which is almost certain to continue, and one of its forms will be the struggle among financing agencies over channels.

The final answer of the market may well differ for different goods. As has already been suggested, for example, the banks may find direct

operations more feasible for articles of high unit value than for those of small unit value. Types of goods for which store traffic is important will perhaps continue to be financed by the stores themselves. Prospects for effective invasion of the field by the small-loan companies do not seem too bright. They are organized to do the specialized and relatively expensive remedial loan business, and it is doubtful if their method of operation can compete very effectively in most lines of trade and in most situations with alternative ways of financing instalments sales.

Commercial Banks and Finance Companies.—Particularly important is the question of the probable relations between commercial banks and finance companies in coming years. For some time it has been said openly and repeatedly that the commercial banks are aggressively determined to participate more directly in financing instalment sales than they have heretofore. As we have already seen, much of the financing of instalment buying, particularly of automobile trade and the larger appliances, has been done with bank money through the intermediary sales finance company. Bankers have long bemoaned a situation in which they provided at low interest rates funds that sales finance companies in turn used to discount instalment paper at much higher rates. The abrupt curtailment of automobile and appliance production during the war has given the banks another chance to enter this field on equal terms. There is every indication that they plan to do so aggressively.

If the situation continues to develop along these lines, it will represent a substantial change from the attitude of banks in past years. As recently as 1935 many if not most students of the subject seemed to feel that banks preferred to be wholesalers of funds rather than retailers, and that they were best equipped to do wholesale financing. It was also felt by many such students that the persistent decline in earnings of commercial banks was due to fundamental developments of broad significance in the economy, that could not be corrected by, or even to any great extent offset by, direct entry into consumer financing. If these conclusions were valid, they presumably still hold and must be taken into account in looking forward to see whether the banks are likely to develop any long sustained interest in these widely publicized efforts.

It is important, also, to keep in mind the point often made that the social functions of the commercial banks have changed drastically in recent years. Described in broad terms, this change consists of a great reduction in their significance as sources of the funds used by the business. Thanks to the great increase of government securities in their portfolios, the commercial banks, as one authority puts it, "are only indirectly related to the productive process." [4] Expansion of their par-

[4] C. R. Whittlesey, "Problems of Our Domestic Money and Banking System," 34 *American Economic Review*, p. 251 (March, 1944), (Part 2).

ticipation in consumer credit will not substantially change their new status and function.

However this may be, there is and doubtless will continue to be much jockeying for position among the financial agencies in the field of instalment buying. What happens in other areas of consumer credit may very well determine what happens here. All one can predict safely is that the instalment financing structure is likely to be quite different a decade from now from what it was at the peak of instalment buying in the inter-war years.

APPENDICES

APPENDIX A

EXPLANATORY NOTES ON MAJOR STATISTICAL SOURCES

By Ralph F. Breyer

I. Retail Credit Survey

UNITED STATES DEPARTMENT OF COMMERCE AND FEDERAL RESERVE BOARD

The *Retail Credit Survey,* which covers cash and credit sales, receivables, collections, and bad-debt losses of *credit-granting* urban stores in selected trades, has been conducted by the United States Department of Commerce and the Federal Reserve Board. The *Survey* has been made annually, except for the semiannual studies made during the years 1930–1933, by means of questionnaires mailed during the early weeks of January and February. In the beginning, data were obtained from only seven retail trades, although these were trades in which credit was especially important. Over a period of years the number has been increased to fifteen. The twofold purpose of the *Survey* is well stated in the 1938 report, which says:

> As in the first *Retail Credit Survey,* published in September, 1930, the primary objectives in the preparation of these reports have been the provision of a permanent record of changes in the structure of retail credit and the establishment of standards, or guides, based on average experience with the various phases of credit operations.[1]

The standards or guides referred to in this quotation are, of course, for the use of those individual retailers who extend credit.

In the present study the primary interest lies in the relative importance of cash, open credit, and instalment sales in retailing as a whole and in the five trades which have been the most important users of instalment credit, namely, automobile, department store, furniture, household appliance, and jewelry. Unfortunately the reports do not give the precise coverage of each trade. At times (as where the sales in the re-

[1] *Retail Credit Survey: 1938,* U. S. Department of Commerce, *Domestic Commerce Series No. 109,* 1938, p. 4.

spective trades are compared to their total sales given in the Census) one is led to believe that the classifications are identical in their content with those of the Census.[2] At other times incidental comments indicate clearly that the opposite is true for some given trade, as, for example, the department-store trade which, contrary to Census classification, excludes both catalogue and retail-store sales of mail-order houses.[3] This situation is cited not so much as a significant limitation upon the usefulness of the figures as a caution against the assumption that the classifications are in *all* cases identical with those of the Census.

The data on types of sales are confined to urban stores that grant credit, as is true for all data in the *Survey,* except the estimates on total retail sales reproduced in Table 7. These figures are intended to cover all sales of all retailers. The term "urban" is nowhere defined in the reports, although the list of cities is given in the appendices. Failing to consult these, a reader might well attach to the word "urban" the meaning that has been popularized by the Census Reports, which characterize cities and towns of 2,500 population and over as urban areas. A check of the list contained in the 1939 *Survey* shows only one of the 163 cities with a population of less than 30,000. Comparison of this list with the previous years that are used in the present study indicates that the sample represents only places of 25,000 or more population. Moreover the *Survey* figures apply only to those stores or dealers within such places that grant credit, so that the ratios that are given (with the exception noted) are not for total sales of the respective trades but rather for the total sales of the credit-granting stores in places of 25,000–30,000 or more population.

Changes, over the period for which figures are reproduced in the present study, in the statement, description, or definition of the terms cash sales, open-credit sales, and instalment sales in the schedules, likewise operate as a limiting factor on the use of the *Survey* data for present purposes. Since the schedules employed in 1940 were not available, the observations had to be based on those for the remaining years. Most of the changes in "definitions" were for purposes of clarification. While they are probably not so fundamental as to render the data incomparable, they are too significant to be ignored entirely. A few examples will suffice to show their general nature. In the 1938 *Survey* the item of cash sales appears in the schedule as "cash sales." In the schedules used the following year it is designated "cash and c.o.d. sales." In 1942 the schedule reads "cash and c.o.d. (exclude down payments on instalment sales)." For 1938, open credit is put in the schedule as "open-credit sales," whereas in the questionnaires for the years 1939 and 1942 this

[2] *Retail Credit Survey: 1935,* p. 3, footnote 6.
[3] *Op. cit.,* 1935, p. 4, footnote 4.

phrase is followed by the explanatory expression "(charge accounts)." In 1939 the schedule specifically includes trade-in allowances in the down payments that should be made part of the instalment sales figure to be reported, which is not done in the 1938 and 1942 schedules. The effects of such variations in terminology of the schedules from year to year can, however, be easily overshadowed by failure of the respondents to observe the definitions. One authority closely connected with the *Retail Credit Survey* states, "But no one who has worked with them is confident that most respondents have observed the definitions supplied. The reported figures in many cases represent only rough approximations. . . ." [4]

For the first four of the years for which the *Survey* data are used in the present study, there is no substantial evidence that the sample is representative of the entire United States for each individual trade. It appears to have been the policy to get such names of credit-granting stores as could be obtained from the Bureau of Foreign and Domestic Commerce's field offices and from privately owned credit bureaus. Schedules were then apparently sent to all such names, and such usable returns as happened to be received constituted the sample. A change took place in 1938 and 1939. The *Survey* for 1939 states:

> The development of the samples for the 1938 *Retail Credit Survey* was based on the broad primary assumption that if uniform promotional methods were applied within a group of cities selected on the basis of a sales distribution approximating the regional distribution of total retail sales in the 1935 census, reasonably accurate regional distributions of credit sales would be secured for the field of credit-granting stores in each of the individual trades. The results of the 1938 *Survey,* which covered 103 cities, indicated that there were variations in the distributions of total sales in the individual trade samples which appeared out of line with the patterns anticipated from the known trade and credit regional characteristics. To some extent irregularities could be attributed to basic weaknesses in certain trade samples, but it was also evident that there was a different general quality of reporting which also had to be taken into account between regions. To compensate for both of these factors, 60 new cities were selected for additional coverage in the present study for 1939.[5]

In a footnote to this passage it is stated that no city quotas were established with reference either to number of reports or sales volume.

With the enlargement of the sample in 1939, the report for that year states:

[4] Letter dated February 25, 1944, from Roland I. Robinson, Division of Research and Statistics, Board of Governors of the Federal Reserve System.

[5] *Retail Credit Survey: 1939,* United States Department of Commerce, *Domestic Commerce Series No. 112,* 1939, pp. 3, 4.

> The regional sales reported in the trade samples indicate that distributions have been secured which mainly conform to an acceptable pattern. Further readjustments might be made to bring the data more closely into line with regional distributions shown in the 1935 census, but it is not known to what extent changed economic conditions since 1935 may have influenced the geographic distribution of retail sales as a whole, or for individual trades. Furthermore, there may have been measurable shifts in the importance of credit selling regionally.[6]

Presumably for the years 1934–1938 the geographic distribution of the sample was considerably less satisfactory.

The analysis of the data by store sizes undoubtedly suffers from lack of an adequate proportion of small stores in the sample. As the report for 1939 explains:

> Because of their natural interest in matters pertaining to credit, stores with credit sales of sufficient volume to require specialized supervision are more inclined than other stores to submit their data on a voluntary basis. Thus the trade samples tend to reflect the experience of two general types of stores, (a) stores with substantial percentages of credit sales to total sales, regardless of store size, and (b) large stores in which even a relatively small percentages of sales on credit may represent an absolute volume of credit business requiring a specialized credit-management function. Analysis of the trade samples by size of store reveals that these reporting characteristic results in comparatively few returns from the smaller-size stores.[7]

The report goes on to say,

> However, although no data are available showing the sales distribution of strictly credit-granting retail stores by size classifications, it is believed that the importance of inclusion of a relatively large numerical representation of the smaller credit-granting stores can be greatly overestimated. According to data for 1935, about 60 per cent of all retail stores did business amounting to less than $10,000 in that year (about two thirds of these stores having sales of less than $5,000), and this large group of small stores accounted for only 11 per cent of total retail sales. In addition, credit volume in these small stores is even less significant with relation to total retail-credit volume than is indicated by the comparison of their combined cash and credit sales to aggregate retail sales.
>
> Data presented in the census for 1929 give definite evidence that throughout the retail structure, by trades as well as in the aggregate, there is a direct relationship between size of store and proportion of sales on credit. That is to say, as stores increase in size, a larger percentage of their total sales is on credit. Furthermore, although there are great variations between trades, 50 per cent of all retail stores are shown by the 1929 census

[6] *Op. cit.*, p. 4.
[7] *Op. cit.*, p. 5.

> to sell for cash only, and it is also disclosed that these cash stores are of the smallest average size compared to groups having some proportion of sales on credit. These features tend to minimize the importance of small stores in sampling a trade universe of credit-granting stores.[8]

The reporting samples used in the geographic and size-of-store analysis are in numerous instances, especially prior to 1938, too thin. In those cases where the cells are quite small, the statistical analysis has little or no validity. Such obvious inadequacies, however, occur much less frequently during the later years, although there still remain a considerable number of cases where there may be some doubt of the adequacy of the sample. Furthermore, the sample for automobile dealers appears clearly inadequate for the analysis of even national figures, as can be seen from the subsequent discussion of the Federal Reserve Board's surveys.

For all of the points discussed above it must be remembered that the situation varies as between the five trades used in the present study.

For the years from 1941 on, the Federal Reserve Board's surveys were used by the present study. In its report for 1942 the Board states that department stores, furniture stores, household-appliance stores, jewelry stores, and automobile dealers for which data were used in the report had total dollar volume sales constituting respectively the following proportions of estimated national volume for their trade lines in 1942; 51 per cent, 17 per cent, 7 per cent, 7 per cent and 2 per cent. The 1942 *Survey,* commenting on the full list of such ratios, says, "It is evident that samples of some of the lines are adequate for analysis of national figures, while others are clearly too thin," [9] without specifying the trades in either category. Automobile dealers would certainly be among those for which the sample was clearly inadequate, as their percentage was the lowest recorded. This would probably hold also for the Department of Commerce's figures for the years 1934–1940 if the number of stores reporting can be taken as an approximate index.[10] The samples for household-appliance and for jewelry stores are not as large as might be desired and must be used with caution. This statement would hold for the figures of previous years (Department of Commerce's) in the jewelry trade, and also in the household-appliance trade, except for the years 1934–1937.

Commenting further upon the limitation of the data in the 1942 *Survey,* the Board states:

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8 *Op. cit.,* p. 5.

9 *Retail Credit Survey: 1942,* Board of Governors of the Federal Reserve System, July, 1943, p. 5.

10 There was no doubt some increase in the total number of automobile dealers over the five to ten year period, and the size-pattern of the samples probably varied from year to year.

In addition, the reporting stores were concentrated in somewhat larger cities where credit practices are not necessarily the same as those in medium-sized and smaller towns. Furthermore, the aggregate data for a few lines as, for example, grocery, and automobile tire and accessory groups, include an overweighting of chain stores in which credit practices are not typical of those at independent stores. Notwithstanding these limitations, the *Survey* is of value in indicating the direction of change and other important credit developments.

When broken down into Federal Reserve districts, size groups, and city aggregates, a considerable margin of error must be allowed for in the analysis. Nevertheless most of the conclusions to be drawn from this *Survey* would be true even with a large allowance for variations in the underlying data.[11]

Because of all these limitations and weaknesses, it has been impossible to make anything more than a very sparing use of data from the *Retail Credit Survey* in the present study. Although there is reason to believe that the statistical methods used have been improved greatly in recent years, they still do not lend themselves to confident analyses involving very detailed breakdowns. Furthermore, the weaknesses of the data for the earlier years of the series cannot be eliminated by subsequent improvements in method.

II. Consumer Credit Statistics

NATIONAL BUREAU OF ECONOMIC RESEARCH, UNITED STATES DEPARTMENT OF COMMERCE, AND FEDERAL RESERVE BOARD

The history of this statistical series is concisely stated in the November, 1942, issue of *Survey of Current Business:*

Recognizing . . . the need for estimates of consumer debt, the Bureau of Foreign and Domestic Commerce in 1939 collaborated with the National Bureau of Economic Research and the Russell Sage Foundation in the development of historical monthly estimates of consumer instalment debt. Shortly thereafter the Bureau of Foreign and Domestic Commerce initiated a program to supply current monthly estimates of instalment debt. This in turn has led to the development of the monthly short-term consumer debt series. . . . Since the consumer credit work of the Department of Commerce has recently been transferred to the Board of Governors of the Federal Reserve System, all future current monthly estimates of consumer debt will be made by that agency.[12]

[11] *Retail Credit Survey: 1942,* Board of Governors of the Federal Reserve System, July, 1943, p. 5.

[12] D. McC. Holthausen, "Monthly Estimates of Short Term Consumer Debt, 1929–1942," 22 *Survey of Current Business,* No. 11, p. 15 (Nov., 1942).

From these series two groups of data are drawn or computed for use in the study at hand. One covers instalment sales; the other consumer debt. The figures on instalment sales in Table 9 were taken from Holthausen, as noted for the years 1929–1938. In order to get the estimates for subsequent years up to 1944, the reported total of instalment sales for 1939 was divided by the total sales of all stores for that year. Using the resulting 1939 percentage as a base, the relative change in the per cent of instalment sales to total sales of identical stores for two-year periods, as reported in the *Retail Credit Survey: 1940–1943,* were applied successively to the 1939 percentage (based on the Census) and to the computed percentages of subsequent years. This procedure yielded estimates of the percentage of instalment sales to total sales for these years. Such percentages were then applied to the total retail sales of such years, as estimated by the United States Department of Commerce, to obtain the annual instalment sales estimates. For the years 1944–1946, the *Survey* did not give two-year data for identical stores, and it became necessary to use the change from year to year in successive samples, a much less meaningful procedure.

Holthausen also presents data on sales comparable to those in Tables 11, 12 and B-2. Because these could not be brought down to date, they were eventually discarded and the present figures substituted. The figures in these tables were computed from the monthly series on instalment credit granted issued by the Federal Reserve Board in mimeographed form. With the unofficial cooperation of members of the Board's staff (to whom the author is greatly indebted) it was possible to estimate the ratio of instalment sales to instalment granted for each year from 1929 to 1946. Applied to the monthly figures for credit granted, they yielded the estimates offered in these three tables.

As to the consumer debt data, it is not our purpose to present a critical analysis of the complete process used in constructing this series (see *Survey of Current Business,* November, 1942, p. 15 ff., for a discussion of methods of estimation and sources of data), but rather merely to emphasize those limitations that are of importance for the purposes for which the series have been used in the present study. This will be done by taking up each of the five types of consumer debt included in the series in succession. It is, of course, understood that the measure of consumer debt in this series is "outstandings."

Instalment-Sale Debt. The estimates for automobile dealers do not include instalment sales of trucks and accessories or of repairs.

The department-store category (which includes sales of mail-order houses) and the jewelry-store category are identical with those of the Census. The furniture group combines three Census classifications—fur-

niture stores, floor covering and drapery stores, and other home furnishing stores. The household-appliance store group includes two of the Census classifications—household-appliance and radio stores, and radio dealers. The "all other stores" classification covers the other types of retail establishments which grant credit to consumers on an instalment basis, and these categories are also identical with those of the Census, as follows: Country general stores, drygoods and general merchandise stores, gasoline filling stations, garages, automobile tire and accessory stores and other automotive stores, the entire apparel group, hardware stores, book stores, sporting-goods stores, florists, secondhand stores, drugstores, bicycle shops, fuel and ice dealers, gift, novelty, and souvenir shops, and luggage stores.[13]

The receivables include finance charges and represent credit outstandings arising from the sales of each type of retail trade regardless of whether the instalment paper is held by the retailer or sold to some financial agency.

In calculating the outstandings for the department store, furniture, household-appliance, and jewelry trades, the figures for retail instalment *sales* were taken to represent the amount of instalment *credit granted* because there was little accurate information available on average down payments and finance charges. With reference to this point the National Bureau study says:

Where average down payments are 10 per cent or less, and average lengths of contract 18 months or more with typical financing charges, the cash selling price of an article sold on instalment (i.e., before deduction of down payment) would very likely be equal to or less than the amount of credit granted. This observation is particularly applicable to instalment sales by furniture and household-appliance stores. For department and jewelry stores, however, the average contract duration is shorter; in such cases the cash price of the instalment sale is greater than the amount of credit granted. Thus the estimates for department and jewelry stores are biased upward to some extent, and those for furniture and household-appliance stores downward. The bias is not likely to be more than four per cent either way for any individual series. When totals are made of the four groups, these biases are largely offset.[14]

Instalment-Cash Loan Debt.

The instalment cash loan debt series refer to receivables arising from loans repayable on an instalment basis, made by cash lending agencies to consumers. Agencies included are commercial banks, credit unions, industrial banking companies, personal finance companies, miscellaneous instalment loan agencies, and a separate series for home repair and moderniza-

[13] *Ibid.*, p. 24.
[14] D. McC. Holthausen and others, *The Volume of Consumer Instalment Credit, 1929–38,* p. 108, footnote 4.

tion consumer loans. The principal exclusion is real-estate-mortgage credit.

Interest charges are included in all receivables estimates except those for the personal finance company and credit union series. Personal finance companies make their charge each month on the unpaid balance, and do not include the charge as a part of the amount of the loan or as a part of the loan balance outstanding. Roughly three fourths of all credit unions use a similar lending technique, and, to that extent, the credit union series exclude interest charges.

The monthly estimates for 1929–1938 for all lending agencies except miscellaneous are figures compiled by the National Bureau of Economic Research, in cooperation with the Russell Sage Foundation and the Department of Commerce. (See pages 120–125 of *"The Volume of Consumer Instalment Credit, 1929–38,"* National Bureau of Economic Research.) Monthly instalment cash loan debt estimates for 1939, 1940, 1941, and the current year have been projected from year-end 1938 estimates primarily using sample material on the movement of loans receivable.[15]

Charge-Account Sale Debt. This series includes consumer debt arising from retail and wholesale charge-account sales to consumers. Since interest is not generally charged on this type of credit extension, it is excluded from the estimates.

Because they had to be constructed from rather fragmentary stocks of statistics, the figures for charge-account sale debt for years prior to 1935 must be considered nothing more than rough estimates.

Open-Credit Cash Loan Debt. Included in this series is short-term debt resulting from the consumer lending activities of commercial banks and pawnbrokers with no specified repayment schedule. The estimates exclude, for the most part, interest charges. The figures for pawnbrokers are based on Rolf Nugent's year-end estimates, of outstanding pledge loan balances, which ranged from $60 million to $400 million.

> It is impossible to develop accurate measurements of pawnbrokers' loan balances. There are few reports in the pawnbrokering business and commercial pawnbrokers are generally unwilling to supply any information concerning their business. . . . The best that can be done under present circumstances is to reduce the error of previous estimates.[16]

At best Nugent's figures are, therefore, only rough estimates, and this is reflected in the combined figure for commercial banks and pawnbrokers.

Service Debt.

> This series includes debt (in length of term of [*sic*] similar to charge accounts) arising from services rendered by medical practitioners, hos-

[15] 22 *Survey of Current Business*, p. 23 (Nov., 1942).
[16] R. Nugent, *Consumer Credit and Economic Stability*, Russell Sage Foundation, 1939, pp. 374–375.

pitals, laundries, cleaning and pressing establishments, funeral parlors, public utilities, and correspondence schools. The principal exclusion is probably consumer debt arising from legal services, for which field no data are available at the present time. Generally, interest is not charged in the extension of service credit and therefore these estimates exclude any such charges.[17]

This series is also based on Nugent's year-end estimates. Speaking of its deficiencies Nugent says,

For all types of service creditors there was an almost complete lack of summary data upon which estimates of receivables could be based. For some such agencies it has been possible to establish an objective statistical basis for estimation, but for others the impracticability of obtaining satisfactory samples has compelled reliance upon *a priori* reasoning. In all instances, estimates of receivables of service creditors are necessarily crude, and a large potential error is inherent in them; and in some instances they have only suggestive value.[18]

III. Net Change in Consumer Instalment Debt

NATIONAL BUREAU OF ECONOMIC RESEARCH

The source of the basic data used by the National Bureau to develop the statistics on net change in consumer instalment debt was the *Study of Consumer Purchases, 1935–1936,* a project of the Works Progress Administration, in which expenditure data were obtained from a selected sample of 60,000 nonrelief families, mostly native white, drawn from a random sample of 300,000 families. The sample was representative of different regions, types of farming area, and kinds of community. The majority of the returns covered the year ending approximately June 30, 1936.

Each family was asked if there had been either a net increase or a net decrease in instalment, cash loan, or charge-account debt as between the beginning and the end of the schedule year. If the family reported a change one way or the other, the amount of the increase or decrease in debt was entered on the schedule; otherwise these spaces were left blank. Hence the information in the schedules refers only to *net change* in each type of debt as between the start and the finish of the year

. . . and not to the existence of instalment, cash loan, and charge account debt or to the total amount of such debt. Net change means simply the net increase or the net decrease in the balance due on instalment purchases, cash

[17] 22 *Survey of Current Business,* p. 25 (Nov., 1942).
[18] R. Nugent, *op. cit.* 285.

loans, or charge account purchases. In the field of instalment credit, for example, a family that owed $100 at the beginning of the year for an automobile purchased on the instalment plan and retired this debt completely during the year, would have reported a net decrease in debt of $100. If the same family had bought another car during the year, for which purchase there was an unpaid balance of $300 at the end of the year, it would have reported a net increase in instalment debt of $200.[19]

Since the present study is concerned primarily with instalment buying, it will suffice to discuss merely this one form of consumer debt. What is desired here is some measure of the use of instalment buying by consumers. Where a consumer analysis such as W.P.A.'s is used, the more common yardsticks for this are: Volume of instalment purchases, number of families (and other consumer purchasing units) buying on instalments, and the total amount of consumer instalment debt. Obviously the data on net change in instalment debt are in no way related to the first of these yardsticks, since, to give but one reason, down payments must be included to obtain the total dollar amount of purchases made in the instalment plan. Nor can figures that merely state the net increase or decrease in the instalment debts of families be taken to represent the total amount of instalment debt, i.e., the total outstandings, at any given time. However, data on the number of families that reported a net increase or decrease in instalment debt do permit an *approximate* measure of the number that "used" instalment credit. The only circumstances under which families may have had instalment debts any time during the year (which is one way to view the "use" of instalment credit) without being registered by the "net-change" item in the schedules of the *Study of Consumer Purchases, 1935–1936,* would be: (1) where families owed exactly as much at the end of the year as at the beginning, and (2) where families, not being indebted at the beginning of the year, had incurred a debt during the year and paid it off completely by the end of the year. Since quite small increases or decreases in debt were reported, the first circumstance could not materially affect the accuracy of the data as a measure of the number of families incurring instalment debts during the year. Of the second circumstance, the National Bureau study states:

The estimates of instalment debt presented in this study cannot be considered completely representative of the number of families indebted during the year since they do not take into account instalment debt of relatively short duration, that is, debt contracted after the beginning and paid off before the end of the schedule year. Since instalment credit is most often applied to commodities sold on fairly long terms, it is unlikely, however,

[19] B. Bernstein, *The Pattern of Consumer Debt, 1935–36,* National Bureau of Economic Research, 1940, pp. 13–14.

> that the number of families having recourse to it is underestimated to any great degree.[20]

While the exact meaning of the phrase "to any great degree" in the last sentence cannot be known, it may well be that this understatement is significant.

Another less useful way to view the "use" of instalment credit is to consider the number of families not having instalment debt at the *end* of the year. The data from the *Study of Consumer Purchases, 1935–1936* overstate the number of such families because they include among the families reporting a decrease in instalment debt those whose obligations have been entirely liquidated. "The number of families increasing debt could be the minimum number that could be described as indebted at the end of the year."

The third view of the "use" of instalment credit, and, in many ways the most important, is represented by the number of families *making purchases during the year* on the instalment plan. The number of families reporting a net change in instalment debt in the *Purchase Study*[21] includes an indeterminate number which were making payments on purchases made in the *previous* year. Hence the number of families having a net change overestimates the number that made instalment *purchases during the year.* This latter number is approximated by the data on the number of families increasing their instalment debt,

> but since some families which were decreasing rather than increasing (instalment) debt may also have incurred new debts whose effect is counterbalanced by repayments on old debts, the per cent of families increasing (instalment) debt must be considered only as a rough indication of the proportion of families making new (instalment) purchases . . . during 1935–36,[22]

i.e., it errs by understatement.

Turning from the meaning of the basic data of the *Purchase Study* to the coverage of the investigation, one finds several important limitations that must be kept constantly in mind. As has been said, the sample covered 60,000 nonrelief families, mostly native white. The exclusion of families on relief probably affects the instalment-debt data but little, as they could hardly qualify for this type of credit. The same can be said for single persons on relief. But the omission of single individuals not on relief is unfortunate, as their number is large and their pattern of instalment debt might well differ considerably from that of nonrelief families.

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[20] *Op. cit.*, pp. 14, 15.
[21] Short phrase from *Study of Consumer Purchases, 1935–1936.*
[22] B. Bernstein, *op. cit.*, p. 16. Words in parentheses are the author's.

In the second place, the data took no account of foreign-born families. Separate estimates were not worked up for this group in the present study, but on the assumption that its pattern of debt would not differ enough to affect the results greatly, the foreign-born white population was combined with the native white to weight the data for the latter group. Other color groups, an insignificant proportion of population, were added to the Negro population.[23]

Finally, in some types of community, data for the lowest income groups (under $500) were lacking. And the same was true for the highest income groups in other communities. Such deficiencies required special estimates of the patterns of debt for these groups.

The final results thus obtained for the $0–250 income class, and to a lesser extent, for the $250–500 and the $500-and-over groups are only approximate, but they are sufficiently accurate to warrant their use, in view of the relative insignificance of the groups for which these estimates were made.[24]

The tables reproduced in the present study "are affected to a very minor degree by the quality of these particular estimates." [25]

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[23] B. Bernstein, *op. cit.*, p. 234.
[24] B. Bernstein, *op. cit.*, p. 236.
[25] B. Bernstein, *op. cit.*, p. 236.

APPENDIX B

TABLE

PROPORTIONS OF CASH, OPEN-CREDIT, AND INSTALMENT-CREDIT SALES OF

Kind of Business	Number of Stores Reporting[b]												
	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
Automobile dealers	109	141	141	127	215	215	155	147	147	318	632	745	764
Automobile tire and accessory stores	56	121	121	174	272	272	207	525	525	618	680	888	904
Coal, fuel oil, and wood dealers	91	125	125	163	217	217	212	232	232	852	–	–	–
Department stores	161	179	179	224	291	291	275	465	465	574	1,446	1,514	1,534
Furniture stores	123	194	194	197	329	329	285	574	574	637	976	1,003	1,032
Hardware stores	101	111	111	143	194	194	235	218	218	283	481	472	557
Household appliance stores	55	58	58	73	156	156	233	393	393	332	466	461	577
Jewelry stores	102	103	103	143	256	256	170	162	162	187	314	379	388
Men's clothing stores	99	115	115	168	244	244	225	218	218	202	436	495	359
Women's apparel stores	128	156	156	142	235	235	190	170	170	191	319	425	359

Kind of Business	Per Cent of Total Sales[a]												
	Open Credit[d]												
	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
Automobile dealers	15.3	21.5	21.1	20.4	18.0	16.2	15.6	14.0	31.0	31.0	34.0	36.0	27.0
Automobile tire and accessory stores	64.3	29.1	30.5	66.4	67.3	65.6	64.8	56.0	55.0	51.0	54.0	50.0	44.0
Coal, fuel oil, and wood dealers	72.9	72.9	73.7	74.5	73.7	74.0	74.8	74.0	72.0	64.0	–	–	–
Department stores	43.4	42.8	42.5	43.2	44.9	45.1	44.5	43.0	39.0	34.0	29.0	29.0	32.0
Furniture stores	23.1	21.1	21.2	19.6	18.6	17.2	18.3	12.0	14.0	16.0	18.0	17.0	19.0
Hardware stores	59.0	50.9	54.1	59.5	63.9	64.8	62.2	62.0	58.0	49.0	46.0	44.0	42.0
Household appliance stores	25.9	18.4	18.3	21.1	15.1	15.1	26.1	25.0	33.0	35.0	36.0	35.0	36.0
Jewelry stores	42.0	42.6	42.5	34.6	29.4	28.7	30.8	23.0	21.0	24.0	23.0	24.0	24.0
Men's clothing stores	53.0	52.8	54.4	53.9	55.1	56.2	56.0	56.0	49.0	41.0	33.0	29.0	35.0
Women's apparel stores	63.6	64.0	64.4	66.8	67.2	67.2	66.6	65.0	57.0	50.0	44.0	42.0	47.0

[a] The figures are weighted averages based on net sales.

[b] Includes only credit-granting dealers and stores. For some of the years, several of the business categories contain a few retailers located in Hawaii.

[c] Net cash and c.o.d. sales (gross sales less allowances for returns and discounts). Trade-ins taken as part payment are included. See *Explanatory Notes on Major Statistical Sources* for variations.

[d] Net sales on charge accounts (gross sales less allowances for returns and discounts). Trade-ins taken as part payment are included. See *Explanatory Notes on Major Statistical Sources* for variations.

STATISTICAL TABLES

B-1

Credit-Granting Stores, by Kinds of Business, 1934–1946

Per Cent of Total Sales[a]												
Cash[c]												
1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
44.1	36.2	36.4	36.2	42.6	42.2	40.6	45.0	44.0	47.0	49.0	50.0	62.0
30.6	59.2	55.2	19.2	19.7	20.5	20.2	20.0	30.0	40.0	40.0	46.0	49.0
26.1	26.0	25.3	24.3	24.5	23.8	24.0	25.0	27.0	36.0	–	–	–
49.7	49.2	48.4	47.1	46.5	45.5	45.9	48.0	55.0	61.0	66.0	66.0	62.0
9.4	9.6	9.4	8.0	8.9	8.5	8.4	10.0	15.0	20.0	24.0	27.0	28.0
38.6	47.2	44.1	35.3	31.2	29.4	33.1	30.0	36.0	49.0	52.0	54.0	56.0
8.5	6.7	7.4	8.2	10.4	10.2	10.4	12.0	19.0	37.0	40.0	43.0	42.0
28.5	28.6	26.8	24.5	29.9	28.5	25.3	31.0	43.0	46.0	52.0	56.0	48.0
43.4	44.0	42.3	38.9	39.1	37.7	36.4	39.0	47.0	58.0	63.0	68.0	62.0
35.5	35.2	34.5	31.4	30.4	30.2	29.0	32.0	39.0	48.0	53.0	55.0	50.0

Per Cent of Total Sales[a]												
Instalment Credit[e]												
1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
40.6	42.3	42.5	43.4	39.4	41.6	43.8	41.0	25.0	22.0	17.0	14.0	11.0
5.1	11.7	14.3	14.4	13.0	13.9	15.0	24.0	15.0	9.0	6.0	4.0	7.0
1.0	1.1	1.0	1.2	1.8	2.2	1.2	1.0	1.0	f	–	–	–
6.9	8.0	9.1	9.7	8.6	9.4	9.6	9.0	6.0	5.0	5.0	5.0	6.0
67.5	69.3	69.4	72.4	72.5	74.3	73.3	78.0	71.0	64.0	58.0	56.0	53.0
2.4	1.9	1.8	5.2	4.9	5.8	4.7	8.0	6.0	2.0	2.0	2.0	2.0
65.6	74.9	74.3	70.7	74.5	74.7	63.5	63.0	48.0	28.0	24.0	22.0	22.0
29.5	28.8	30.7	40.9	40.7	42.8	43.9	46.0	36.0	30.0	25.0	20.0	28.0
3.6	3.2	3.3	7.2	5.8	6.1	7.6	5.0	4.0	1.0	4.0	3.0	3.0
0.9	0.8	1.1	1.8	2.4	2.6	4.4	3.0	4.0	2.0	3.0	3.0	3.0

[e] Net sales on instalment or deferred payment plans (gross sales less allowances for returns and discounts), regardless of whether the paper is sold, discounted, or held. Includes down payments, whether in the form of cash or trade-in allowances. See *Explanatory Notes on Major Statistical Sources* for variations.

[f] Less than .5 of one per cent.

Source: *Retail Credit Survey, 1934–1941*, United States Department of Commerce, and *Retail Credit Survey, 1924–1946*, Federal Reserve Board. See Appendix A, *Explanatory Notes on Major Statistical Sources*, under the subhead, *Retail Credit Survey*, for comments on the limitations of these data.

TABLE B-2

Amount of Instalment Sales, by Type of Retail Establishment, Monthly, 1929–1946

(In millions of dollars)

Month and Year	Total	Automobile Dealers	Furniture and Household-Appliance Stores	Department Stores[a] and Mail-order Houses	All Other Retailers[b]
1929—Jan.	287	180	61	20	26
Feb.	334	214	71	21	28
Mar.	476	334	87	22	33
Apr.	581	408	113	22	38
May	616	437	119	21	39
June	603	429	114	23	37
July	581	431	97	21	32
Aug.	543	390	97	22	34
Sept.	448	301	89	24	34
Oct.	467	308	97	26	36
Nov.	380	230	91	25	34
Dec.	386	196	122	24	44
Total	5,702	3,858	1,158	271	415
1930—Jan.	258	154	56	22	26
Feb.	291	178	63	22	28
Mar.	386	259	75	21	31
Apr.	460	306	95	22	37
May	400	243	98	22	37
June	434	287	93	19	35
July	378	252	78	19	29
Aug.	347	218	78	20	31
Sept.	316	194	69	22	31
Oct.	308	175	75	25	33
Nov.	253	132	69	22	30
Dec.	298	144	92	22	40
Total	4,129	2,542	941	258	388
1931—Jan.	203	112	45	20	26
Feb.	218	121	50	20	27
Mar.	277	167	59	21	30
Apr.	332	204	72	22	34
May	326	198	74	20	34
June	310	189	70	19	32
July	275	173	57	18	27
Aug.	246	144	57	17	28
Sept.	219	124	50	18	27
Oct.	214	112	54	20	28
Nov.	184	89	49	20	26
Dec.	211	92	66	18	35
Total	3,015	1,725	703	233	354
1932—Jan.	117	62	25	13	17
Feb.	122	62	28	14	18
Mar.	137	72	31	14	20
Apr.	159	79	41	15	24
May	157	82	39	14	22
June	162	90	38	13	21
July	112	62	23	12	15
Aug.	122	62	30	12	18
Sept.	117	55	30	13	19
Oct.	117	47	34	15	21
Nov.	101	39	30	13	19
Dec.	114	38	39	13	24
Total	1,537	750	388	161	238

TABLE B-2 (*Continued*)

AMOUNT OF INSTALMENT SALES, BY TYPE OF RETAIL ESTABLISHMENT, MONTHLY, 1929–1946

(In millions of dollars)

Month and Year	Total	Automobile Dealers	Furniture and Household-Appliance Stores	Department Stores[a] and Mail-order Houses	All Other Retailers[b]
1933—Jan.	89	49	18	11	11
Feb.	86	46	20	9	11
Mar.	103	54	25	11	13
Apr.	138	71	36	13	18
May	173	91	46	15	21
June	185	103	46	15	21
July	167	101	34	15	17
Aug.	193	111	44	17	21
Sept.	171	98	36	17	20
Oct.	167	90	38	18	21
Nov.	139	70	33	17	19
Dec.	141	53	46	17	25
Total	1,752	937	422	175	218
1934—Jan.	107	51	24	16	16
Feb.	134	72	28	16	18
Mar.	176	98	37	19	22
Apr.	221	124	50	20	27
May	243	141	54	20	28
June	232	140	48	19	25
July	211	135	38	17	21
Aug.	204	124	39	19	22
Sept.	169	89	37	20	23
Oct.	192	98	43	24	27
Nov.	165	80	39	22	24
Dec.	178	66	54	24	34
Total	2,232	1,218	491	236	287
1935—Jan.	160	97	26	19	18
Feb.	187	114	32	20	21
Mar.	259	164	44	25	26
Apr.	308	194	56	27	31
May	305	187	60	26	32
June	296	184	57	25	30
July	296	198	48	24	26
Aug.	281	177	51	24	29
Sept.	239	137	46	27	29
Oct.	247	131	52	32	32
Nov.	267	157	51	28	31
Dec.	307	170	64	32	41
Total	3,152	1,910	587	309	346
1936—Jan.	219	143	31	23	22
Feb.	232	141	42	24	25
Mar.	348	230	55	31	32
Apr.	420	275	71	35	39
May	444	281	83	37	43
June	452	297	78	36	41
July	413	268	72	35	38
Aug.	362	224	65	35	38
Sept.	334	196	61	38	39
Oct.	321	164	67	46	44
Nov.	319	173	64	41	41
Dec.	412	226	86	45	55
Total	4,276	2,618	775	426	457

TABLE B-2 (*Continued*)

AMOUNT OF INSTALMENT SALES, BY TYPE OF RETAIL ESTABLISHMENT, MONTHLY, 1929–1946

(In millions of dollars)

Month and Year	Total	Automobile Dealers	Furniture and Household-Appliance Stores	Department Stores[a] and Mail-order Houses	All Other Retailers[b]
1937—Jan.	280	176	43	31	30
Feb.	299	172	57	33	37
Mar.	441	280	71	44	46
Apr.	491	296	93	48	54
May	513	310	98	50	55
June	513	316	96	47	54
July	448	284	78	41	45
Aug.	431	265	79	40	47
Sept.	380	214	71	47	48
Oct.	350	178	69	54	49
Nov.	316	169	59	45	43
Dec.	316	148	68	47	53
Total	4,778	2,808	882	527	561
1938—Jan.	215	112	42	29	32
Feb.	227	114	48	31	34
Mar.	292	157	57	37	41
Apr.	311	153	69	42	47
May	310	154	70	40	46
June	292	150	63	37	42
July	264	135	58	34	37
Aug.	293	141	70	37	45
Sept.	262	109	66	41	46
Oct.	275	110	70	46	49
Nov.	302	148	64	43	47
Dec.	363	160	88	50	65
Total	3,406	1,643	765	467	531
1939—Jan.	264	138	50	35	41
Feb.	271	139	56	34	42
Mar.	364	205	64	46	49
Apr.	389	206	76	52	55
May	437	238	88	54	57
June	421	233	80	52	56
July	378	205	72	44	57
Aug.	378	197	80	46	55
Sept.	347	160	74	56	57
Oct.	392	186	82	64	60
Nov.	385	192	77	58	58
Dec.	442	201	104	70	67
Total	4,468	2,300	903	611	654
1940—Jan.	312	178	48	41	45
Feb.	326	185	55	42	44
Mar.	422	242	68	56	56
Apr.	486	277	90	60	59
May	514	285	103	62	64
June	487	282	87	58	60
July	476	281	81	52	62
Aug.	441	233	90	55	63
Sept.	383	185	73	62	63
Oct.	474	256	86	70	62
Nov.	468	256	82	68	62
Dec.	541	272	112	81	76
Total	5,330	2,932	975	707	716

TABLE B-2 (*Continued*)
AMOUNT OF INSTALMENT SALES, BY TYPE OF RETAIL ESTABLISHMENT, MONTHLY, 1929–1946
(In millions of dollars)

Month and Year	Total	Automobile Dealers	Furniture and Household-Appliance Stores	Department Stores[a] and Mail-order Houses	All Other Retailers[b]
1941—Jan.	389	252	49	47	41
Feb.	436	272	65	50	49
Mar.	550	347	78	64	61
Apr.	667	405	112	75	75
May	708	425	126	79	78
June	658	408	106	70	74
July	596	361	95	69	71
Aug.	586	296	128	80	82
Sept.	406	179	85	70	72
Oct.	401	182	86	66	67
Nov.	366	162	79	62	63
Dec.	429	179	100	78	72
Total	6,192	3,468	1,109	810	805
1942—Jan.	248	91	55	50	52
Feb.	233	57	70	51	55
Mar.	269	47	86	67	69
Apr.	232	22	84	60	66
May	201	32	71	45	53
June	183	39	54	35	55
July	160	34	48	37	41
Aug.	196	48	60	38	50
Sept.	202	44	63	43	52
Oct.	218	39	72	49	58
Nov.	213	46	68	45	54
Dec.	235	33	86	52	64
Total	2,590	532	817	572	669
1943—Jan.	139	14	49	38	38
Feb.	144	16	50	36	42
Mar.	162	19	58	38	47
Apr.	201	35	71	39	56
May	178	33	63	34	48
June	164	20	61	34	49
July	160	30	53	31	46
Aug.	169	31	58	32	48
Sept.	165	30	52	36	47
Oct.	175	26	58	38	53
Nov.	173	25	57	39	52
Dec.	191	25	63	43	60
Total	2,021	304	693	438	586
1944—Jan.	116	37	29	24	26
Feb.	130	28	38	26	38
Mar.	165	33	48	35	49
Apr.	165	41	52	32	40
May	183	39	63	36	45
June	189	54	58	33	44
July	182	55	51	32	44
Aug.	190	54	56	35	45
Sept.	198	50	59	40	49
Oct.	210	41	72	43	54
Nov.	213	45	71	44	53
Dec.	245	48	80	51	66
Total	2,186	525	677	431	553

TABLE B-2 (*Continued*)

AMOUNT OF INSTALMENT SALES, BY TYPE OF RETAIL ESTABLISHMENT, MONTHLY, 1929–1946

(In millions of dollars)

Month and Year	Total	Automobile Dealers	Furniture and Household-Appliance Stores	Department Stores[a] and Mail-order Houses	All Other Retailers[b]
1945—Jan.	127	24	35	32	36
Feb.	145	35	44	30	36
Mar.	176	33	57	40	46
Apr.	169	42	52	32	43
May	184	43	58	36	47
June	182	39	58	36	49
July	184	47	55	36	46
Aug.	181	51	53	32	45
Sept.	187	44	59	37	47
Oct.	224	46	78	45	55
Nov.	246	56	84	48	58
Dec.	268	54	89	55	70
Total	2,273	514	722	459	578
1946—Jan.	208	63	61	38	46
Feb.	234	71	73	40	50
Mar.	262	72	82	52	56
Apr.	297	87	90	56	64
May	307	103	89	56	59
June	284	82	86	57	59
July	315	114	84	58	59
Aug.	339	116	95	63	65
Sept.	332	116	88	66	62
Oct.	394	148	105	72	69
Nov.	394	134	112	76	72
Dec.	492	162	130	98	102
Total	3,858	1,268	1,095	732	763

[a] Adjusted for seasonal variation.

[b] Jewelry store instalment credit granted, included in this segment, is adjusted for seasonal variation.

Source: Computed from Federal Reserve Data as Described in Appendix A.

TABLE B-3

Total Consumer Credit, Monthly, by Major Parts, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Consumer Credit	Instalment Credit: Total Instalment Credit	Instalment Credit: Sale Credit: Total	Instalment Credit: Sale Credit: Automobile	Instalment Credit: Sale Credit: Other	Instalment Credit: Loans[a]	Single-payment Loans[b]	Charge Accounts	Service Credit
1929—Jan....	6,650	2,609	2,087	1,032	1,055	522	1,939	1,531	571
Feb...	6,586	2,565	2,037	1,005	1,032	528	1,971	1,475	575
Mar...	6,718	2,621	2,083	1,049	1,034	538	2,005	1,513	579
Apr...	6,899	2,746	2,197	1,135	1,062	549	2,038	1,533	582
May..	7,086	2,889	2,327	1,233	1,094	562	2,068	1,545	584
June..	7,233	3,016	2,439	1,320	1,119	577	2,092	1,538	587
July...	7,271	3,107	2,519	1,404	1,115	588	2,114	1,461	589
Aug...	7,346	3,170	2,576	1,456	1,120	594	2,128	1,457	591
Sept...	7,436	3,173	2,574	1,450	1,124	599	2,137	1,535	591
Oct....	7,514	3,195	2,583	1,447	1,136	612	2,137	1,589	593
Nov...	7,475	3,159	2,532	1,393	1,139	627	2,132	1,590	594
Dec...	7,637	3,167	2,515	1,318	1,197	652	2,125	1,749	596
1930—Jan....	7,320	3,027	2,375	1,224	1,151	652	2,114	1,584	595
Feb...	7,111	2,911	2,263	1,148	1,115	648	2,100	1,510	590
Mar...	7,083	2,872	2,222	1,128	1,094	650	2,086	1,533	592
Apr...	7,098	2,989	2,242	1,142	1,100	656	2,074	1,537	589
May..	7,070	2,887	2,227	1,117	1,110	660	2,062	1,532	589
June..	7,044	2,900	2,241	1,130	1,111	659	2,048	1,508	588
July...	6,923	2,882	2,217	1,125	1,092	665	2,036	1,418	587
Aug...	6,858	2,849	2,187	1,104	1,083	662	2,022	1,399	588
Sept...	6,852	2,805	2,147	1,075	1,072	658	2,008	1,457	582
Oct....	6,829	2,771	2,112	1,038	1,074	659	1,988	1,492	578
Nov...	6,750	2,702	2,043	977	1,068	659	1,969	1,504	575
Dec...	6,829	2,696	2,032	928	1,104	664	1,949	1,611	573
1931—Jan....	6,522	2,585	1,926	861	1,065	659	1,920	1,446	571
Feb...	6,310	2,491	1,838	802	1,036	653	1,885	1,367	567
Mar...	6,223	2,436	1,794	777	1,017	642	1,843	1,379	565
Apr...	6,180	2,440	1,800	782	1,018	640	1,801	1,377	562
May..	6,131	2,452	1,809	788	1,021	643	1,753	1,367	559
June..	6,050	2,451	1,810	792	1,018	641	1,701	1,341	557
July...	5,887	2,430	1,785	790	995	645	1,647	1,257	553
Aug...	5,764	2,390	1,752	774	978	638	1,595	1,232	547
Sept...	5,710	2,344	1,712	747	965	632	1,545	1,278	543
Oct...	5,638	2,302	1,669	716	953	633	1,497	1,301	538
Nov...	5,496	2,232	1,610	674	936	622	1,450	1,280	534
Dec...	5,526	2,212	1,595	637	958	617	1,402	1,381	531
1932—Jan....	5,212	2,105	1,495	588	907	610	1,365	1,224	518
Feb...	4,986	2,006	1,407	542	865	599	1,329	1,136	515
Mar...	4,863	1,930	1,335	505	830	595	1,289	1,123	521
Apr...	4,748	1,878	1,289	478	811	589	1,252	1,100	518
May..	4,645	1,838	1,252	460	792	586	1,218	1,076	513
June..	4,540	1,802	1,226	453	773	576	1,181	1,048	509
July...	4,354	1,730	1,162	430	732	568	1,143	978	503
Aug...	4,247	1,681	1,122	413	709	559	1,107	961	498
Sept...	4,203	1,636	1,085	393	692	551	1,071	1,002	494
Oct...	4,147	1,595	1,055	371	684	540	1,035	1,025	492
Nov...	4,061	1,551	1,015	345	670	536	1,000	1,019	491
Dec...	4,093	1,526	999	322	677	527	962	1,114	491

TABLE B-3 (*Continued*)

TOTAL CONSUMER CREDIT, MONTHLY, BY MAJOR PARTS, 1929-1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Consumer Credit	Instalment Credit					Single-payment Loans[b]	Charge Accounts	Service Credit
		Total Instalment Credit	Sale Credit			Loans[a]			
			Total	Automobile	Other				
1933—Jan.	3,890	1,472	955	311	644	517	926	1,004	488
Feb.	3,754	1,423	916	299	617	507	894	954	483
Mar.	3,693	1,384	892	293	599	492	865	967	477
Apr.	3,666	1,390	901	303	598	489	838	968	470
May	3,670	1,426	941	330	611	485	811	968	465
June	3,679	1,469	988	365	623	481	792	956	462
July	3,633	1,492	1,015	399	616	477	777	903	461
Aug.	3,666	1,541	1,065	437	628	476	767	897	461
Sept.	3,740	1,570	1,096	463	633	474	766	942	462
Oct.	3,798	1,592	1,119	480	639	473	767	974	465
Nov.	3,799	1,585	1,114	477	637	471	772	976	466
Dec.	3,929	1,605	1,122	459	663	483	776	1,081	467
1934—Jan.	3,791	1,553	1,082	438	644	471	783	988	467
Feb.	3,743	1,534	1,066	433	633	468	789	953	467
Mar.	3,800	1,557	1,086	448	638	471	796	980	467
Apr.	3,885	1,615	1,140	481	659	475	803	999	468
May	3,973	1,685	1,203	523	680	482	810	1,012	466
June	4,038	1,741	1,252	562	690	489	817	1,014	466
July	4,034	1,776	1,280	595	685	496	825	970	463
Aug.	4,076	1,807	1,301	617	684	506	835	975	459
Sept.	4,147	1,812	1,298	611	687	514	845	1,035	455
Oct.	4,225	1,839	1,311	612	699	528	855	1,078	453
Nov.	4,240	1,838	1,302	600	702	536	865	1,086	451
Dec.	4,396	1,867	1,317	576	741	550	875	1,203	451
1935—Jan.	4,279	1,847	1,291	574	717	556	887	1,092	453
Feb.	4,255	1,849	1,285	585	700	564	899	1,053	454
Mar.	4,373	1,915	1,337	631	706	578	912	1,087	459
Apr.	4,542	2,025	1,427	698	729	598	926	1,131	460
May	4,640	2,130	1,509	754	755	621	938	1,111	461
June	4,769	2,228	1,579	805	774	649	951	1,128	462
July	4,821	2,317	1,636	864	772	681	965	1,075	464
Aug.	4,898	2,395	1,683	903	780	712	980	1,059	464
Sept.	4,998	2,436	1,697	907	790	739	996	1,101	465
Oct.	5,102	2,476	1,709	903	806	767	1,014	1,145	467
Nov.	5,214	2,527	1,736	919	817	791	1,030	1,189	468
Dec.	5,439	2,627	1,805	940	865	822	1,048	1,292	472
1936—Jan.	5,347	2,614	1,767	931	836	847	1,069	1,187	477
Feb.	5,340	2,613	1,741	917	824	872	1,092	1,155	480
Mar.	5,487	2,717	1,808	972	836	909	1,117	1,169	484
Apr.	5,687	2,869	1,931	1,057	874	938	1,140	1,190	488
May	5,917	3,028	2,067	1,142	925	961	1,164	1,233	492
June	6,048	3,161	2,194	1,234	960	967	1,189	1,202	496
July	6,124	3,261	2,280	1,298	982	981	1,213	1,150	500
Aug.	6,215	3,326	2,323	1,323	1,000	1,003	1,238	1,147	504
Sept.	6,355	3,368	2,344	1,323	1,021	1,024	1,263	1,216	508
Oct.	6,487	3,393	2,349	1,295	1,054	1,044	1,288	1,295	511
Nov.	6,560	3,408	2,346	1,272	1,074	1,062	1,310	1,327	515
Dec.	6,796	3,526	2,436	1,289	1,147	1,090	1,331	1,419	520

TABLE B-3 (*Continued*)

TOTAL CONSUMER CREDIT, MONTHLY, BY MAJOR PARTS, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Consumer Credit	Instalment Credit					Single-payment Loans[b]	Charge Accounts	Service Credit
		Total Instalment Credit	Sale Credit			Loans[a]			
			Total	Automobile	Other				
1937—Jan....	6,640	3,479	2,377	1,261	1,116	1,102	1,355	1,279	527
Feb...	6,599	3,450	2,334	1,228	1,106	1,116	1,378	1,238	533
Mar...	6,756	3,547	2,406	1,277	1,129	1,141	1,398	1,273	538
Apr...	6,912	3,677	2,515	1,335	1,180	1,162	1,423	1,269	543
May..	7,094	3,818	2,639	1,402	1,237	1,179	1,444	1,284	548
June..	7,238	3,946	2,753	1,473	1,280	1,193	1,466	1,273	553
July...	7,272	4,007	2,805	1,517	1,288	1,202	1,489	1,221	555
Aug...	7,357	4,055	2,850	1,547	1,303	1,205	1,506	1,239	557
Sept...	7,444	4,062	2,854	1,535	1,319	1,208	1,516	1,309	557
Oct....	7,484	4,042	2,833	1,495	1,338	1,209	1,516	1,368	558
Nov...	7,453	3,986	2,779	1,147	1,332	1,207	1,510	1,399	558
Dec...	7,491	3,971	2,752	1,384	1,368	1,219	1,504	1,459	557
1938—Jan....	7,166	3,823	2,619	1,302	1,317	1,204	1,497	1,291	555
Feb...	6,943	3,692	2,503	1,225	1,278	1,189	1,484	1,218	549
Mar...	6,889	3,639	2,444	1,184	1,260	1,195	1,473	1,233	544
Apr...	6,866	3,618	2,412	1,145	1,267	1,206	1,460	1,249	539
May..	6,823	3,599	2,384	1,114	1,270	1,215	1,450	1,240	534
June..	6,799	3,581	2,349	1,088	1,261	1,232	1,444	1,243	531
July...	6,682	3,532	2,294	1,056	1,238	1,238	1,436	1,187	527
Aug...	6,680	3,525	2,278	1,036	1,242	1,247	1,436	1,195	524
Sept...	6,731	3,503	2,243	996	1,247	1,260	1,436	1,270	522
Oct...	6,752	3,490	2,222	962	1,260	1,268	1,437	1,305	520
Nov...	6,830	3,508	2,231	961	1,270	1,277	1,439	1,362	521
Dec...	7,064	3,612	2,313	970	1,343	1,299	1,442	1,487	523
1939—Jan....	6,864	3,572	2,261	960	1,301	1,311	1,445	1,322	525
Feb...	6,793	3,548	2,225	951	1,274	1,323	1,448	1,273	524
Mar...	6,873	3,616	2,268	993	1,275	1,348	1,450	1,283	524
Apr...	6,973	3,711	2,331	1,035	1,296	1,380	1,452	1,287	523
May..	7,124	3,849	2,431	1,103	1,328	1,418	1,452	1,300	523
June..	7,236	3,971	2,509	1,162	1,347	1,462	1,455	1,286	524
July...	7,235	4,035	2,537	1,197	1,340	1,498	1,458	1,217	525
Aug...	7,320	4,104	2,571	1,223	1,348	1,533	1,462	1,229	525
Sept...	7,488	4,153	2,585	1,218	1,367	1,568	1,465	1,345	525
Oct....	7,622	4,241	2,633	1,232	1,401	1,608	1,466	1,388	527
Nov...	7,700	4,305	2,670	1,247	1,423	1,635	1,468	1,399	528
Dec...	7,994	4,449	2,792	1,267	1,525	1,657	1,468	1,544	533
1940—Jan...	7,810	4,415	2,740	1,270	1,470	1,675	1,452	1,408	535
Feb...	7,718	4,405	2,711	1,275	1,436	1,694	1,440	1,336	537
Mar...	7,820	4,485	2,758	1,324	1,434	1,727	1,429	1,368	538
Apr...	7,946	4,611	2,860	1,400	1,460	1,751	1,424	1,373	538
May..	8,125	4,774	2,978	1,477	1,501	1,796	1,426	1,384	541
June..	8,284	4,909	3,066	1,548	1,518	1,843	1,429	1,402	544
July...	8,278	4,996	3,128	1,615	1,513	1,868	1,430	1,305	547
Aug...	8,361	5,067	3,164	1,637	1,527	1,903	1,437	1,309	548
Sept...	8,489	5,091	3,164	1,619	1,545	1,927	1,449	1,399	550
Oct...	8,644	5,173	3,226	1,655	1,571	1,947	1,464	1,455	552
Nov...	8,776	5,250	3,285	1,688	1,597	1,965	1,477	1,494	555
Dec...	9,146	5,448	3,450	1,729	1,721	1,998	1,488	1,650	560

TABLE B-3 (*Continued*)

TOTAL CONSUMER CREDIT, MONTHLY, BY MAJOR PARTS, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Consumer Credit	Instalment Credit: Total Instalment Credit	Sale Credit: Total	Sale Credit: Automobile	Sale Credit: Other	Loans[a]	Single-payment Loans[b]	Charge Accounts	Service Credit
1941—Jan....	8,945	5,410	3,393	1,746	1,647	2,017	1,487	1,486	562
Feb...	8,911	5,444	3,410	1,798	1,612	2,034	1,483	1,419	565
Mar...	9,014	5,517	3,453	1,850	1,603	2,064	1,480	1,450	567
Apr...	9,321	5,757	3,642	1,981	1,661	2,115	1,499	1,495	570
May..	9,649	6,008	3,844	2,124	1,720	2,164	1,534	1,532	575
June..	9,888	6,174	3,973	2,229	1,744	2,201	1,550	1,581	583
July...	9,940	6,264	4,035	2,293	1,742	2,229	1,547	1,540	589
Aug...	10,092	6,366	4,116	2,320	1,796	2,250	1,545	1,587	594
Sept...	10,107	6,248	4,007	2,216	1,791	2,241	1,549	1,712	598
Oct....	9,995	6,126	3,908	2,138	1,770	2,218	1,566	1,702	601
Nov...	9,844	5,988	3,796	2,047	1,749	2,192	1,590	1,662	604
Dec...	9,895	5,920	3,744	1,942	1,802	2,176	1,601	1,764	610
1942—Jan....	9,533	5,616	3,506	1,812	1,694	2,110	1,581	1,721	615
Feb...	9,161	5,352	3,295	1,668	1,627	2,057	1,567	1,623	619
Mar...	8,988	5,127	3,101	1,513	1,588	2,026	1,555	1,683	623
Apr...	8,741	4,898	2,916	1,369	1,547	1,982	1,536	1,682	625
May..	8,319	4,620	2,702	1,239	1,463	1,918	1,509	1,561	629
June..	7,873	4,333	2,472	1,120	1,352	1,861	1,479	1,430	631
July...	7,359	4,047	2,243	1,004	1,239	1,804	1,453	1,225	634
Aug...	7,059	3,757	2,029	874	1,155	1,728	1,433	1,232	637
Sept...	6,896	3,521	1,860	769	1,091	1,661	1,417	1,320	638
Oct....	6,744	3,281	1,701	664	1,037	1,580	1,403	1,419	641
Nov...	6,502	3,079	1,569	573	996	1,510	1,393	1,386	644
Dec...	6,478	2,948	1,491	482	1,009	1,457	1,369	1,513	648
1943—Jan....	6,018	2,689	1,312	404	908	1,377	1,344	1,333	652
Feb...	5,796	2,497	1,188	351	837	1,309	1,311	1,333	655
Mar...	5,654	2,357	1,068	287	781	1,289	1,298	1,343	656
Apr...	5,545	2,262	1,017	260	757	1,245	1,294	1,331	658
May..	5,377	2,156	953	235	718	1,203	1,284	1,275	662
June..	5,360	2,093	895	208	687	1,198	1,261	1,338	668
July...	5,123	2,008	837	196	641	1,171	1,219	1,222	674
Aug...	5,037	1,958	805	190	615	1,153	1,204	1,198	677
Sept...	5,125	1,932	784	186	598	1,148	1,239	1,275	679
Oct...	5,224	1,909	776	181	595	1,133	1,269	1,366	680
Nov...	5,311	1,897	775	177	598	1,222	1,266	1,466	682
Dec...	5,334	1,957	814	175	639	1,143	1,192	1,498	687
1944—Jan....	4,985	1,854	742	169	573	1,112	1,145	1,294	692
Feb...	4,832	1,803	705	167	538	1,098	1,114	1,218	697
Mar...	5,014	1,821	695	167	528	1,126	1,115	1,376	702
Apr....	5,003	1,804	689	171	518	1,115	1,148	1,346	705
May..	5,113	1,816	699	181	518	1,117	1,197	1,390	710
June..	5,184	1,838	706	192	514	1,132	1,260	1,370	716
July...	5,115	1,844	705	204	501	1,139	1,262	1,287	722
Aug...	5,163	1,849	708	210	498	1,141	1,257	1,330	727
Sept...	5,236	1,865	719	210	509	1,146	1,242	1,402	727
Oct....	5,384	1,889	743	210	533	1,146	1,251	1,516	728
Nov...	5,571	1,925	772	208	564	1,153	1,255	1,664	727
Dec...	5,776	2,034	835	200	635	1,199	1,255	1,758	729

TABLE B-3 (*Continued*)

TOTAL CONSUMER CREDIT, MONTHLY, BY MAJOR PARTS, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Consumer Credit	Instalment Credit					Single-payment Loans[b]	Charge Accounts	Service Credit
		Total Instalment Credit	Sale Credit			Loans[a]			
			Total	Automobile	Other				
1945—Jan.	5,480	1,967	777	192	585	1,190	1,245	1,534	734
Feb.	5,337	1,923	741	186	555	1,182	1,238	1,438	738
Mar.	5,597	1,948	731	184	547	1,217	1,239	1,669	741
Apr.	5,477	1,945	723	184	539	1,222	1,284	1,506	742
May	5,533	1,957	718	184	534	1,239	1,344	1,488	744
June	5,685	1,984	719	188	531	1,265	1,411	1,544	746
July	5,627	1,991	712	192	520	1,279	1,426	1,459	751
Aug.	5,599	1,986	706	196	510	1,280	1,418	1,441	754
Sept.	5,630	2,010	717	202	515	1,293	1,394	1,470	756
Oct.	5,914	2,086	754	210	544	1,332	1,404	1,666	758
Nov.	6,236	2,190	805	219	586	1,385	1,448	1,835	763
Dec.	6,637	2,365	903	227	676	1,462	1,519	1,981	772
1946—Jan.	6,427	2,364	877	235	642	1,487	1,580	1,701	782
Feb.	6,530	2,404	879	245	634	1,525	1,641	1,692	793
Mar.	6,984	2,503	905	264	641	1,598	1,705	1,972	804
Apr.	7,368	2,649	957	289	668	1,692	1,766	2,138	815
May	7,607	2,783	1,004	318	686	1,779	1,814	2,188	822
June	7,905	2,902	1,035	336	699	1,867	1,846	2,327	830
July	8,032	3,022	1,070	365	705	1,952	1,886	2,281	843
Aug.	8,374	3,165	1,124	394	730	2,041	1,938	2,418	853
Sept.	8,643	3,288	1,177	425	752	2,111	2,000	2,495	860
Oct.	9,021	3,458	1,261	466	795	2,197	2,081	2,621	861
Nov.	9,540	3,646	1,358	505	853	2,288	2,164	2,859	871
Dec.	10,157	3,976	1,558	544	1,014	2,418	2,253	3,054	874
1947—Jan.	9,982	4,048	1,566	581	985	2,482	2,295	2,764	875
Feb.	9,939	4,156	1,608	631	977	2,548	2,303	2,602	878
Mar.	10,255	4,329	1,695	691	1,004	2,634	2,279	2,768	879
Apr.	10,465	4,537	1,813	753	1,060	2,724	2,256	2,782	890
May	10,723	4,733	1,922	810	1,112	2,811	2,255	2,835	900
June[p]	10,970	4,909	2,014	858	1,156	2,895	2,269	2,887	905
July[p]	11,060	5,051	2,074	905	1,169	2,977	2,306	2,792	911

[a] Includes repair and modernization loans insured by Federal Housing Administration.
[b] Noninstalment consumer loans (single-payment loans of commercial banks and pawnbrokers).
[p] Preliminary.

Source: Division of Research and Statistics, Board of Governors of the Federal Reserve System. Includes all revisions to September 1947.

TABLE B-4

INDEXES OF INSTALMENT-SALE DEBT, INSTALMENT CASH LOAN DEBT, CHARGE ACCOUNT SALE DEBT, AND TOTAL SHORT-TERM CONSUMER DEBT, ADJUSTED FOR SEASONAL VARIATION, JANUARY 1929—AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Instalment Sale Debt	Instalment Cash Loan Debt	Charge Account Sale Debt	Total Short-term Consumer Debt
1929—Jan.	94.8	49.7	120.7	102.3
Feb.	95.7	50.8	121.6	103.5
Mar.	98.7	51.8	122.3	105.4
Apr.	102.0	52.6	123.0	107.4
May	105.7	53.5	123.5	109.4
June	107.8	54.8	124.1	110.8
July	110.1	55.6	124.4	112.2
Aug.	111.8	56.5	124.7	113.3
Sept.	111.5	57.0	124.9	113.4
Oct.	111.7	58.2	125.1	113.8
Nov.	110.5	59.6	125.1	113.6
Dec.	109.7	61.4	125.1	113.5
1930—Jan.	108.1	62.2	124.8	112.8
Feb.	106.5	62.4	124.5	112.0
Mar.	105.5	62.8	123.9	111.4
Apr.	104.2	63.1	123.3	110.7
May	101.0	63.2	122.5	109.2
June	99.0	63.0	121.7	108.1
July	97.0	63.5	120.1	107.1
Aug.	95.1	63.6	119.8	106.0
Sept.	93.4	63.3	118.6	104.8
Oct.	91.6	63.5	117.5	103.7
Nov.	89.3	63.5	116.3	102.3
Dec.	88.5	63.5	115.1	101.5
1931—Jan.	87.4	63.7	114.0	100.7
Feb.	86.1	63.6	112.7	99.2
Mar.	84.7	62.7	111.5	97.7
Apr.	83.3	62.1	110.5	96.3
May	81.9	61.9	109.4	94.9
June	80.0	61.4	108.2	93.2
July	78.4	61.6	107.0	91.7
Aug.	76.7	61.1	105.5	89.9
Sept.	74.7	60.5	104.0	88.1
Oct.	72.7	60.6	102.4	86.4
Nov.	70.7	59.4	100.8	84.5
Dec.	69.3	58.3	99.1	82.8
1932—Jan.	67.6	58.2	96.5	80.9
Feb.	65.6	57.5	93.7	79.0
Mar.	62.8	57.2	90.8	76.9
Apr.	59.5	56.2	88.2	74.4
May	56.5	55.5	86.0	72.3
June	54.2	54.1	84.5	70.3
July	51.3	53.2	83.3	68.3
Aug.	49.3	52.5	82.3	66.7
Sept.	47.6	51.6	81.5	65.2
Oct.	46.2	50.4	80.7	63.8
Nov.	44.6	49.9	80.2	62.6
Dec.	43.3	48.6	79.7	61.3

TABLE B-4 (*Continued*)

INDEXES OF INSTALMENT-SALE DEBT, INSTALMENT CASH LOAN DEBT, CHARGE ACCOUNT SALE DEBT, AND TOTAL SHORT-TERM CONSUMER DEBT, ADJUSTED FOR SEASONAL VARIATION, JANUARY 1929—AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Instalment Sale Debt	Instalment Cash Loan Debt	Charge Account Sale Debt	Total Short-term Consumer Debt
1933—Jan.	43.1	48.1	79.1	60.6
Feb.	42.6	47.5	78.7	59.7
Mar.	41.8	46.2	78.2	58.6
Apr.	41.5	45.7	77.7	57.9
May	42.6	45.0	77.4	57.6
June	43.8	44.6	77.1	57.7
July	44.8	44.0	76.9	57.8
Aug.	46.7	44.0	76.8	58.3
Sept.	48.0	43.9	76.6	58.7
Oct.	48.7	43.7	76.7	59.0
Nov.	48.8	43.5	75.4	59.1
Dec.	48.7	43.2	77.2	59.2
1934—Jan.	49.3	43.5	77.8	59.7
Feb.	50.3	43.5	78.5	60.3
Mar.	51.3	43.8	79.3	60.9
Apr.	52.6	44.0	80.1	61.7
May	53.8	44.3	80.9	62.4
June	54.6	44.8	81.8	63.1
July	55.4	45.0	82.6	63.6
Aug.	55.8	46.2	83.5	64.2
Sept.	56.7	47.1	84.2	64.9
Oct.	57.4	48.2	84.9	65.6
Nov.	58.0	49.0	85.5	66.1
Dec.	58.7	49.8	86.0	66.8
1935—Jan.	59.6	50.9	86.0	67.5
Feb.	61.3	52.1	86.8	68.6
Mar.	63.3	53.5	87.9	70.1
Apr.	65.4	55.0	90.8	71.9
May	67.0	57.0	88.9	72.7
June	68.3	59.3	91.0	74.1
July	70.3	62.1	91.6	75.7
Aug.	72.1	65.5	90.7	77.0
Sept.	73.6	67.8	89.6	77.9
Oct.	75.5	70.5	90.2	79.4
Nov.	77.7	72.6	91.9	81.2
Dec.	79.5	74.8	92.3	82.6
1936—Jan.	82.3	77.4	93.5	84.7
Feb.	83.8	80.3	95.2	86.4
Mar.	86.0	84.1	94.5	88.1
Apr.	88.6	85.6	95.4	89.9
May	91.7	87.0	98.6	92.3
June	94.8	86.9	97.0	93.5
July	97.4	87.8	98.0	95.2
Aug.	99.1	90.1	98.2	96.6
Sept.	101.4	91.9	99.0	98.3
Oct.	103.6	94.0	102.0	100.5
Nov.	105.0	94.1	102.6	101.6
Dec.	107.4	97.0	101.4	103.0

TABLE B-4 (*Continued*)

INDEXES OF INSTALMENT-SALE DEBT, INSTALMENT CASH LOAN DEBT, CHARGE ACCOUNT SALE DEBT, AND TOTAL SHORT-TERM CONSUMER DEBT, ADJUSTED FOR SEASONAL VARIATION, JANUARY 1929—AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Instalment Sale Debt	Instalment Cash Loan Debt	Charge Account Sale Debt	Total Short-term Consumer Debt
1937—Jan.	107.9	99.0	100.8	103.8
Feb.	109.0	101.2	102.1	105.2
Mar.	111.8	104.0	102.9	107.2
Apr.	114.8	105.0	101.8	108.7
May	117.8	106.0	102.7	110.5
June	120.2	107.1	102.7	112.0
July	122.0	107.6	104.0	113.3
Aug.	124.3	108.5	106.1	115.0
Sept.	126.3	109.2	106.5	116.1
Oct.	126.0	109.5	107.7	116.2
Nov.	124.3	109.5	108.1	115.6
Dec.	120.4	110.0	104.3	113.4
1938—Jan.	118.7	109.8	101.8	112.1
Feb.	116.8	110.0	100.4	110.8
Mar.	113.5	110.8	99.7	109.4
Apr.	110.1	110.8	100.2	108.0
May	106.5	110.7	99.2	106.2
June	102.6	111.4	100.3	105.0
July	100.3	111.6	101.1	104.2
Aug.	99.9	112.5	102.3	104.4
Sept.	99.7	113.5	103.4	104.7
Oct.	99.1	114.0	102.7	104.4
Nov.	99.8	114.6	105.3	105.3
Dec.	100.8	115.5	106.3	106.1
1939—Jan.	102.2	117.3	104.2	106.5
Feb.	103.6	119.4	104.9	107.6
Mar.	105.1	121.5	103.8	108.3
Apr.	106.4	124.2	103.3	109.2
May	108.6	127.0	104.0	110.6
June	109.7	129.8	103.8	111.6
July	111.0	132.5	103.7	112.5
Aug.	112.8	135.0	105.2	114.0
Sept.	114.8	138.0	109.4	116.2
Oct.	117.2	141.0	109.3	117.6
Nov.	119.4	143.9	108.1	118.8
Dec.	121.8	147.1	110.4	120.8
1940—Jan.	124.0	150.6	111.0	122.2
Feb.	126.3	153.7	110.2	123.3
Mar.	127.8	157.1	110.6	124.5
Apr.	130.5	160.5	110.2	126.0
May	133.0	164.0	110.7	127.7
June	133.9	166.7	113.1	129.1
July	136.5	170.1	111.1	130.4
Aug.	138.6	173.8	112.1	132.1
Sept.	140.3	177.3	113.9	133.9
Oct.	143.7	180.6	114.6	136.1
Nov.	147.0	184.0	115.5	138.4
Dec.	150.7	187.2	117.9	141.1

TABLE B-4 (*Continued*)

INDEXES OF INSTALMENT-SALE DEBT, INSTALMENT CASH LOAN DEBT, CHARGE ACCOUNT SALE DEBT, AND TOTAL SHORT-TERM CONSUMER DEBT, ADJUSTED FOR SEASONAL VARIATION, JANUARY 1929—AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Instalment Sale Debt	Instalment Cash Loan Debt	Charge Account Sale Debt	Total Short-term Consumer Debt
1941—Jan.	154.0	190.5	117.1	142.7
Feb.	158.9	193.5	117.0	145.1
Mar.	160.7	196.0	117.3	146.3
Apr.	166.5	201.3	119.9	150.1
May	171.6	204.8	122.5	153.6
June	173.2	206.9	127.6	155.9
July	175.4	210.9	131.1	158.1
Aug.	179.6	213.6	135.9	161.2
Sept.	177.7	213.6	139.3	161.5
Oct.	173.6	211.0	134.0	158.7
Nov.	169.9	208.8	128.4	156.1
Dec.	163.9	205.3	127.5	153.1
1942—Jan.	156.0	200.5	134.7	150.9
Feb.	149.3	197.0	133.9	147.5
Mar.	141.0	194.0	135.9	144.1
Apr.	131.9	189.4	133.1	139.2
May	120.9	182.4	125.9	133.1
June	110.2	175.6	118.7	125.1
July	101.0	169.4	113.0	119.2
Aug.	91.4	162.6	110.4	113.8

Source: D. McC. Holthausen, "Monthly Estimates of Short-Term Consumer Debt, 1929-1942," *Survey of Current Business*, November, 1942, p. 9 ff. The figures used in computing this index differ slightly but not significantly from those in Table B-3. Drastic changes in seasonal patterns of retail trade have made it impossible to compute the index with any considerable degree of confidence for the years since 1942.

TABLE B-5

Consumer Instalment-Sale Credit, Monthly, by Sources, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Sale Credit	Auto-mobile	Total Exclud-ing Auto-mobile	Depart-ment Stores and Mail-order Houses	Furni-ture Stores	House-hold-appliance Stores	Jewelry Stores	All Other Retail Stores
1929—Jan.	2,087	1,032	1,055	141	535	207	51	121
Feb.	2,037	1,005	1,032	139	526	199	50	118
Mar.	2,083	1,049	1,034	141	526	199	50	118
Apr.	2,197	1,135	1,062	142	532	217	50	121
May	2,327	1,233	1,094	141	542	237	50	124
June	2,439	1,320	1,119	138	544	260	51	126
July	2,519	1,404	1,115	132	537	273	48	125
Aug.	2,576	1,456	1,120	131	542	274	47	126
Sept.	2,574	1,450	1,124	138	542	272	46	126
Oct.	2,583	1,447	1,136	146	552	266	45	127
Nov.	2,532	1,393	1,139	150	558	261	43	127
Dec.	2,515	1,318	1,197	160	583	265	56	133
1930—Jan.	2,375	1,224	1,151	156	564	249	53	129
Feb.	2,263	1,148	1,115	154	551	233	50	127
Mar.	2,222	1,128	1,094	151	544	224	49	126
Apr.	2,242	1,142	1,100	152	544	229	47	128
May	2,227	1,117	1,110	151	545	237	46	131
June	2,241	1,130	1,111	144	541	248	45	133
July	2,217	1,125	1,092	136	530	252	42	132
Aug.	2,187	1,104	1,083	134	528	248	41	132
Sept.	2,147	1,075	1,072	137	522	241	39	133
Oct.	2,112	1,038	1,074	144	525	232	38	135
Nov.	2,043	977	1,066	147	524	223	37	135
Dec.	2,032	928	1,104	155	539	222	47	141
1931—Jan.	1,926	861	1,065	151	520	211	46	137
Feb.	1,838	802	1,036	149	507	199	45	136
Mar.	1,794	777	1,017	149	498	192	45	133
Apr.	1,800	782	1,018	149	494	196	44	135
May	1,809	788	1,021	148	491	202	44	136
June	1,810	792	1,018	143	484	210	44	137
July	1,785	790	995	135	471	212	42	135
Aug.	1,752	774	978	131	464	208	41	134
Sept.	1,712	747	965	132	458	202	40	133
Oct.	1,669	716	953	135	453	194	38	133
Nov.	1,610	674	936	134	447	186	37	132
Dec.	1,595	637	958	138	454	185	45	136
1932—Jan.	1,495	588	907	130	433	171	43	130
Feb.	1,407	542	865	124	415	160	41	125
Mar.	1,335	505	830	121	400	149	39	121
Apr.	1,289	478	811	118	390	146	37	120
May	1,252	460	792	115	379	144	36	118
June	1,226	453	773	111	366	144	35	117
July	1,162	430	732	103	346	139	32	112
Aug.	1,122	413	709	99	335	134	31	110
Sept.	1,085	393	692	98	326	129	30	109
Oct.	1,055	371	684	100	321	126	28	109
Nov.	1,015	345	670	100	313	122	27	108
Dec.	999	322	677	103	313	121	30	110

TABLE B-5 (*Continued*)

CONSUMER INSTALMENT-SALE CREDIT, MONTHLY, BY SOURCES, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Sale Credit	Automobile	Total Excluding Automobile	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1933—Jan.	955	311	644	98	300	114	28	104
Feb.	916	299	617	94	290	107	27	99
Mar.	892	293	599	92	284	102	26	95
Apr.	901	303	598	93	284	102	25	94
May	941	330	611	95	289	107	25	95
June	988	365	623	96	291	115	25	96
July	1,015	399	616	94	285	119	24	94
Aug.	1,065	437	628	98	289	122	24	95
Sept.	1,096	463	633	103	290	121	24	95
Oct.	1,119	480	639	109	292	120	23	95
Nov.	1,114	477	637	112	291	117	23	94
Dec.	1,122	459	663	119	299	119	29	97
1934—Jan.	1,082	438	644	116	291	113	29	95
Feb.	1,066	433	633	115	288	108	28	94
Mar.	1,086	448	638	118	289	107	29	95
Apr.	1,140	481	659	121	294	116	29	99
May	1,203	523	680	124	299	126	29	102
June	1,252	562	690	124	299	134	29	104
July	1,280	595	685	120	295	138	28	104
Aug.	1,301	617	684	121	295	137	27	104
Sept.	1,298	611	687	126	296	133	27	105
Oct.	1,311	612	699	133	302	131	26	107
Nov.	1,302	600	702	136	303	128	26	109
Dec.	1,317	576	741	146	314	131	35	115
1935—Jan.	1,291	574	717	142	304	126	34	111
Feb.	1,285	585	700	139	299	121	33	108
Mar.	1,337	631	706	142	299	123	33	109
Apr.	1,427	698	729	149	303	133	32	112
May	1,509	754	755	153	310	143	33	116
June	1,579	805	774	155	311	156	33	119
July	1,636	864	772	152	307	164	31	118
Aug.	1,683	903	780	152	311	168	30	119
Sept.	1,697	907	790	159	312	168	30	121
Oct.	1,709	903	806	169	318	167	29	123
Nov.	1,736	919	817	173	322	168	29	125
Dec.	1,805	940	865	186	336	171	40	132
1936—Jan.	1,767	931	836	179	328	163	39	127
Feb.	1,741	917	824	175	328	158	38	125
Mar.	1,808	972	836	179	330	162	38	127
Apr.	1,931	1,057	874	188	339	176	38	133
May	2,067	1,142	925	197	352	196	39	141
June	2,194	1,234	960	200	360	214	40	146
July	2,280	1,298	982	199	363	232	39	149
Aug.	2,323	1,323	1,000	203	370	236	39	152
Sept.	2,344	1,323	1,021	213	375	238	40	155
Oct.	2,349	1,295	1,054	230	385	239	40	160
Nov.	2,346	1,272	1,074	239	389	243	40	163
Dec.	2,436	1,289	1,147	256	406	255	56	174

TABLE B-5 (*Continued*)

CONSUMER INSTALMENT-SALE CREDIT, MONTHLY, BY SOURCES, 1929-1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Sale Credit	Automobile	Total Excluding Automobile	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1937—Jan.	2,377	1,261	1,116	247	397	247	55	170
Feb.	2,334	1,228	1,106	242	397	245	54	168
Mar.	2,406	1,277	1,129	248	403	251	55	172
Apr.	2,515	1,335	1,180	260	419	267	54	180
May	2,639	1,402	1,237	271	436	285	56	189
June	2,753	1,473	1,280	275	446	307	56	196
July	2,805	1,517	1,288	270	449	317	55	197
Aug.	2,850	1,547	1,303	270	457	323	54	199
Sept.	2,854	1,535	1,319	279	461	323	54	202
Oct.	2,833	1,495	1,338	295	466	319	53	205
Nov.	2,779	1,447	1,332	300	463	312	52	205
Dec.	2,752	1,384	1,368	314	469	307	68	210
1938—Jan.	2,619	1,302	1,317	296	455	296	66	204
Feb.	2,503	1,225	1,278	284	445	287	63	199
Mar.	2,444	1,184	1,260	279	442	281	61	197
Apr.	2,412	1,145	1,267	283	443	282	60	199
May	2,384	1,114	1,270	281	447	282	59	201
June	2,349	1,088	1,261	276	445	281	58	201
July	2,294	1,056	1,238	266	441	278	55	198
Aug.	2,278	1,036	1,242	263	448	277	54	200
Sept.	2,243	996	1,247	267	452	273	53	202
Oct.	2,222	962	1,260	276	462	264	52	206
Nov.	2,231	961	1,270	282	465	263	52	208
Dec.	2,313	970	1,343	302	485	266	70	220
1939—Jan.	2,261	960	1,301	289	476	256	67	213
Feb.	2,225	951	1,274	280	470	250	66	208
Mar.	2,268	993	1,275	284	472	246	65	208
Apr.	2,331	1,035	1,296	295	479	247	64	211
May	2,431	1,103	1,328	304	491	253	64	216
June	2,509	1,162	1,347	307	495	260	66	219
July	2,537	1,197	1,340	300	492	265	65	218
Aug.	2,571	1,223	1,348	301	497	267	64	219
Sept.	2,585	1,218	1,367	314	501	266	65	221
Oct.	2,633	1,232	1,401	334	511	265	65	226
Nov.	2,670	1,247	1,423	346	515	265	67	230
Dec.	2,792	1,267	1,525	377	536	273	93	246
1940—Jan.	2,740	1,270	1,470	361	522	262	88	237
Feb.	2,711	1,275	1,436	351	515	255	84	231
Mar.	2,758	1,324	1,434	354	516	253	81	230
Apr.	2,860	1,400	1,460	362	527	259	79	233
May	2,978	1,477	1,501	369	543	271	78	240
June	3,066	1,548	1,518	370	547	281	78	242
July	3,128	1,615	1,513	361	546	288	78	240
Aug.	3,164	1,637	1,527	361	553	294	77	242
Sept.	3,164	1,619	1,545	371	556	293	81	244
Oct.	3,226	1,655	1,571	388	567	290	78	248
Nov.	3,285	1,688	1,597	403	573	290	79	252
Dec.	3,450	1,729	1,721	439	599	302	110	271

TABLE B-5 (*Continued*)

CONSUMER INSTALMENT-SALE CREDIT, MONTHLY, BY SOURCES, 1929-1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Sale Credit	Automobile	Total Excluding Automobile	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1941—Jan.	3,393	1,746	1,647	418	580	290	100	259
Feb.	3,410	1,798	1,612	405	573	286	94	254
Mar.	3,453	1,850	1,603	404	570	286	90	253
Apr.	3,642	1,981	1,661	421	585	303	90	262
May	3,844	2,124	1,720	434	604	320	91	271
June	3,973	2,229	1,744	436	611	330	92	275
July	4,035	2,293	1,742	431	610	336	91	274
Aug.	4,116	2,320	1,796	443	632	346	92	283
Sept.	4,007	2,216	1,791	446	625	342	96	282
Oct.	3,908	2,138	1,770	446	619	333	93	279
Nov.	3,796	2,047	1,749	445	613	320	96	275
Dec.	3,744	1,942	1,802	466	619	313	120	284
1942—Jan.	3,506	1,812	1,694	435	590	294	108	267
Feb.	3,295	1,668	1,627	413	573	285	100	256
Mar.	3,101	1,513	1,588	404	567	272	95	250
Apr.	2,916	1,369	1,547	393	561	258	91	244
May	2,702	1,239	1,463	365	543	240	85	230
June	2,472	1,120	1,352	330	512	218	79	213
July	2,243	1,004	1,239	297	475	201	71	195
Aug.	2,029	874	1.155	274	449	183	67	182
Sept.	1,860	769	1,091	259	428	169	63	172
Oct.	1,701	664	1.037	251	408	154	61	163
Nov.	1.569	573	996	245	392	141	61	157
Dec.	1,491	482	1,009	252	391	130	77	159
1943—Jan.	1,312	404	908	226	359	116	64	143
Feb.	1,188	351	837	208	338	103	56	132
Mar.	1,068	287	781	194	322	91	51	123
Apr.	1,017	260	757	188	319	81	50	119
May	953	235	718	177	308	72	48	113
June	895	208	687	167	301	64	47	108
July	837	196	641	154	286	55	45	101
Aug.	805	190	615	147	279	48	44	97
Sept.	784	186	598	146	272	42	44	94
Oct.	776	181	595	150	269	37	45	94
Nov.	775	177	598	158	266	32	48	94
Dec.	814	175	639	172	271	29	66	101
1944—Jan.	742	169	573	156	248	24	55	90
Feb.	705	167	538	145	236	21	51	85
Mar.	695	167	528	143	231	19	52	83
Apr.	689	171	518	141	229	18	48	82
May	699	181	518	140	235	16	45	82
June	706	192	514	137	237	15	44	81
July	705	204	501	131	234	14	43	79
Aug.	708	210	498	131	233	13	42	79
Sept.	719	210	509	137	236	13	43	80
Oct.	743	210	533	148	244	13	44	84
Nov.	772	208	564	161	253	13	48	89
Dec.	835	200	635	183	269	13	70	100

TABLE B-5 (*Continued*)

CONSUMER INSTALMENT-SALE CREDIT, MONTHLY, BY SOURCES, 1929–1947

(Estimated amounts outstanding. In millions of dollars)

End of Month	Total Sale Credit	Automobile	Total Excluding Automobile	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1945—Jan.	777	192	585	171	249	12	61	92
Feb.	741	186	555	162	240	12	54	87
Mar.	731	184	547	162	238	11	50	86
Apr.	723	184	539	158	237	11	48	85
May	718	184	534	154	238	10	48	84
June	719	188	531	150	237	11	49	84
July	712	192	520	145	235	11	47	82
Aug.	706	196	510	142	232	11	45	80
Sept.	717	202	515	144	235	11	44	81
Oct.	754	210	544	156	247	11	44	86
Nov.	805	219	586	173	262	12	47	92
Dec.	903	227	676	198	283	14	74	107
1946—Jan.	877	235	642	189	272	14	66	101
Feb.	879	245	634	184	274	14	62	100
Mar.	905	264	641	188	279	14	59	101
Apr.	957	289	668	200	288	15	60	105
May	1,004	318	686	206	295	16	61	108
June	1,035	336	699	210	299	17	63	110
July	1,070	365	705	212	299	20	63	111
Aug.	1,124	394	730	221	308	22	64	115
Sept.	1,177	425	752	235	311	23	65	118
Oct.	1,261	466	795	257	322	25	66	125
Nov.	1,358	505	853	284	337	26	72	134
Dec.	1,558	544	1,014	337	366	28	123	160
1947—Jan.	1,566	581	985	337	352	27	114	155
Feb.	1,608	631	977	338	349	29	107	154
Mar.	1,695	691	1,004	358	354	29	105	158
Apr.	1,813	753	1,060	386	366	32	109	167
May	1,922	810	1,112	409	382	32	114	175
June[p]	2,014	858	1,156	423	395	36	120	182
July[p]	2,074	905	1,169	432	398	37	118	184

[p] Preliminary

Source: Division of Research and Statistics, Board of Governors of the Federal Reserve System. Includes all revisions to September, 1947.

TABLE B-6

Indexes of Consumer Instalment-Sale Debt, Adjusted for Seasonal Variation, Monthly, by Sources, January, 1929–August, 1942 (1935–1939 = 100)

End of Month and Year	Total	Automobile Dealers	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1929—Jan.	94.8	96.1	55.6	129.4	89.5	91.0	68.6
Feb.	95.7	97.3	56.4	130.2	89.5	91.7	68.9
Mar.	98.7	102.7	56.9	130.3	91.4	93.1	69.0
Apr.	102.0	107.9	57.1	130.8	96.2	94.7	69.8
May	105.7	113.8	56.9	131.1	101.4	96.1	70.5
June	107.8	116.8	57.2	131.4	105.2	97.1	71.2
July	110.1	120.5	57.3	131.9	108.0	97.8	71.6
Aug.	111.8	123.7	57.2	132.5	108.5	99.0	71.9
Sept.	111.5	122.7	58.4	132.4	109.7	99.4	71.8
Oct.	111.7	122.1	59.6	133.4	110.2	99.2	71.8
Nov.	110.5	119.4	60.1	134.7	109.3	98.4	71.7
Dec.	109.7	116.9	61.4	136.5	109.6	95.7	72.7
1930—Jan.	108.1	113.9	61.8	136.4	107.8	94.7	73.3
Feb.	106.5	111.2	62.3	136.2	105.0	93.3	74.0
Mar.	105.5	110.5	61.0	134.9	102.9	91.2	73.9
Apr.	104.2	108.5	61.4	133.6	101.7	89.4	74.3
May	101.0	103.2	60.9	132.1	101.4	87.6	74.4
June	99.0	100.1	59.8	130.8	100.3	86.4	74.8
July	97.0	96.7	59.2	130.1	99.7	86.1	75.3
Aug.	95.1	93.7	58.1	129.1	97.9	85.7	75.8
Sept.	93.4	90.9	56.6	127.6	97.1	84.7	76.0
Oct.	91.6	87.6	58.8	126.7	95.8	83.5	76.3
Nov.	89.3	83.8	58.8	126.4	93.4	82.7	76.7
Dec.	88.5	82.4	59.4	126.1	91.9	80.6	77.3
1931—Jan.	87.4	80.1	59.7	125.9	91.2	81.7	77.9
Feb.	86.1	77.7	60.3	125.4	89.6	82.9	79.1
Mar.	84.7	76.1	60.1	123.5	88.3	83.5	78.2
Apr.	83.3	74.3	60.2	121.4	87.0	84.3	77.9
May	81.9	72.8	59.7	118.9	86.4	84.1	77.4
June	80.0	70.2	59.2	116.9	84.8	84.3	77.1
July	78.4	67.8	58.8	115.6	84.0	85.1	77.0
Aug.	76.7	65.7	57.1	113.6	82.3	85.7	76.8
Sept.	74.7	63.2	55.8	111.4	81.6	85.7	76.2
Oct.	72.7	60.5	55.1	109.4	80.4	85.1	75.5
Nov.	70.7	57.8	53.6	108.0	78.2	84.3	74.9
Dec.	69.3	56.5	52.9	106.3	76.2	77.6	74.3
1932—Jan.	67.6	54.7	51.5	104.7	74.2	76.6	73.6
Feb.	65.6	52.4	50.5	102.6	71.9	75.2	73.0
Mar.	62.8	49.5	48.8	99.1	68.5	72.9	71.1
Apr.	59.5	45.4	47.6	95.8	64.9	70.9	69.3
May	56.5	42.5	46.6	91.7	61.5	68.0	67.2
June	54.2	40.1	45.8	88.3	58.4	66.4	65.8
July	51.3	36.9	44.7	84.8	55.1	65.8	63.9
Aug.	49.3	35.0	42.9	81.9	53.0	65.4	62.9
Sept.	47.6	33.2	41.6	79.6	52.2	64.0	62.2
Oct.	46.2	31.3	40.9	77.5	52.0	62.7	61.8
Nov.	44.6	29.6	39.9	75.6	51.2	60.7	61.3
Dec.	43.3	28.6	39.4	73.3	50.1	50.9	60.4

TABLE B-6 (*Continued*)

INDEXES OF CONSUMER INSTALMENT-SALE DEBT, ADJUSTED FOR SEASONAL VARIATION, MONTHLY, BY SOURCES, JANUARY, 1929–AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Total	Automobile Dealers	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1933—Jan.	43.1	28.9	39.0	72.7	49.3	50.4	59.0
Feb.	42.6	28.9	38.2	71.7	48.2	50.0	57.5
Mar.	41.8	28.7	37.2	70.4	46.6	48.9	55.6
Apr.	41.5	28.8	37.6	69.7	45.3	48.7	54.3
May	42.6	30.5	38.5	70.0	45.7	48.3	54.1
June	43.8	32.3	39.7	70.3	46.6	48.5	54.4
July	44.8	34.2	40.9	70.0	47.2	49.5	53.9
Aug.	46.7	37.1	42.4	70.7	48.3	50.3	54.6
Sept.	48.0	39.2	43.5	70.8	48.7	50.9	54.4
Oct.	48.7	40.4	44.4	70.5	49.6	51.5	54.1
Nov.	48.8	40.9	44.9	70.2	49.2	51.9	53.4
Dec.	48.7	40.8	45.6	69.9	49.0	49.7	53.3
1934—Jan.	49.3	41.5	46.1	70.5	48.9	51.3	54.0
Feb.	50.3	42.8	47.0	71.2	48.6	52.7	54.9
Mar.	51.3	44.1	48.3	71.6	49.1	53.8	55.7
Apr.	52.6	45.5	49.1	72.2	51.2	54.8	57.0
May	53.8	47.0	50.3	72.5	53.7	55.2	58.2
June	54.6	48.1	50.9	72.3	54.4	56.2	58.9
July	55.4	49.3	51.6	72.4	54.7	57.2	59.4
Aug.	55.8	50.2	52.3	72.2	54.1	57.8	59.8
Sept.	56.7	51.5	53.1	72.3	53.8	58.2	60.2
Oct.	57.4	52.4	54.2	72.9	54.1	58.7	61.0
Nov.	58.0	53.3	54.7	73.2	53.8	59.3	61.5
Dec.	58.7	54.2	55.5	73.4	54.3	60.3	62.7
1935—Jan.	59.6	55.7	56.5	73.5	54.4	60.9	62.7
Feb.	61.3	58.9	57.3	73.9	54.3	61.5	63.0
Mar.	63.3	61.8	58.6	74.1	56.5	61.7	63.5
Apr.	65.4	64.7	60.5	74.5	58.7	61.9	64.9
May	67.0	66.8	62.0	75.0	61.4	62.1	65.9
June	68.3	68.5	63.4	75.2	63.1	62.7	66.9
July	70.3	71.3	64.8	75.5	65.1	63.1	67.5
Aug.	72.1	74.2	65.5	76.1	66.4	63.9	68.3
Sept.	73.6	76.5	67.0	76.2	67.9	64.6	69.0
Oct.	75.5	79.2	68.7	76.7	69.3	64.8	69.8
Nov.	77.7	82.7	69.4	77.9	70.4	65.6	70.6
Dec.	79.5	85.3	70.8	78.5	70.8	67.8	72.1
1936—Jan.	82.3	90.4	71.7	79.3	70.5	68.8	72.1
Feb.	83.8	92.3	72.3	81.4	71.1	69.7	73.2
Mar.	86.0	95.1	73.8	81.8	74.4	70.9	74.4
Apr.	88.6	97.9	76.3	83.3	77.9	72.7	76.8
May	91.7	101.1	79.6	85.2	84.0	74.5	79.9
June	94.8	104.9	82.0	87.0	86.9	77.4	82.4
July	97.4	107.2	84.9	89.1	91.8	79.6	85.1
Aug.	99.1	108.8	87.4	90.6	93.0	82.1	87.0
Sept.	101.4	111.6	89.7	91.6	96.0	84.9	88.6
Oct.	103.6	113.6	93.4	93.0	99.0	88.0	90.7
Nov.	105.0	114.5	95.8	93.9	101.8	91.0	92.4
Dec.	107.4	117.1	97.4	94.9	105.2	96.1	95.2

TABLE B-6 (*Continued*)

INDEXES OF CONSUMER INSTALMENT-SALE DEBT, ADJUSTED FOR SEASONAL VARIATION, MONTHLY, BY SOURCES, JANUARY. 1929–AUGUST, 1942 (1935–1939 = 100)

End of Month and Year	Total	Automobile Dealers	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1937—Jan.	107.9	116.8	98.7	96.1	106.9	97.6	96.1
Feb.	109.0	116.8	100.0	98.2	110.6	100.0	98.3
Mar.	111.8	119.4	102.8	99.9	115.2	102.4	100.8
Apr.	114.8	122.7	105.6	102.9	118.5	104.1	104.2
May	117.8	125.5	109.5	105.5	122.0	105.9	107.3
June	120.2	127.7	112.4	107.8	124.3	108.3	110.4
July	122.0	129.2	114.8	110.2	125.8	111.0	112.4
Aug.	124.3	132.3	115.7	111.7	127.5	113.4	114.1
Sept.	126.3	134.7	117.3	112.6	130.3	115.7	115.6
Oct.	126.0	133.1	119.7	112.5	131.8	117.1	116.4
Nov.	124.3	130.0	120.2	111.7	131.0	117.9	116.0
Dec.	120.4	124.4	119.2	109.7	126.8	116.7	115.1
1938—Jan.	118.7	120.5	118.7	110.0	128.0	116.9	115.4
Feb.	116.8	116.5	117.7	110.0	129.3	116.9	116.1
Mar.	113.5	110.8	115.8	109.5	128.9	114.9	115.6
Apr.	110.1	105.2	115.2	109.0	124.9	113.9	115.5
May	106.5	99.7	113.8	108.2	120.6	112.0	114.3
June	102.6	94.3	112.6	107.6	113.6	111.6	113.3
July	100.3	90.0	112.7	108.3	110.2	112.0	113.3
Aug.	99.9	88.6	112.5	109.5	109.3	113.4	114.5
Sept.	99.7	87.4	112.3	110.4	110.7	114.5	115.7
Oct.	99.1	85.6	112.0	111.6	110.7	115.1	116.9
Nov.	99.8	86.3	113.0	112.3	110.5	117.3	118.0
Dec.	100.8	87.2	114.6	113.5	109.8	119.1	120.5
1939—Jan.	102.2	88.9	115.9	115.1	110.9	119.6	120.9
Feb.	103.6	90.5	116.4	116.2	112.8	121.6	121.7
Mar.	105.1	92.9	118.1	116.9	112.8	121.2	122.0
Apr.	106.4	95.2	120.2	117.7	109.6	122.6	122.4
May	108.6	98.7	122.9	118.9	108.5	122.8	123.1
June	109.7	100.7	125.2	119.6	105.4	126.3	123.6
July	111.0	102.0	127.3	120.8	105.0	132.8	124.3
Aug.	112.8	104.6	129.0	121.7	105.7	135.6	125.2
Sept.	114.8	106.9	131.9	122.4	107.4	138.5	126.6
Oct.	117.2	109.7	135.3	123.3	109.6	143.8	128.5
Nov.	119.4	112.1	138.6	124.3	111.1	150.7	130.2
Dec.	121.8	113.9	143.4	125.4	112.7	158.5	134.9
1940—Jan.	124.0	117.6	144.9	126.2	113.6	156.8	134.4
Feb.	126.3	121.3	145.8	127.4	114.7	156.6	134.6
Mar.	127.8	123.8	147.4	127.8	116.1	152.5	134.7
Apr.	130.5	128.7	147.6	129.5	115.0	151.3	135.2
May	133.0	132.3	149.4	131.6	116.2	148.9	136.3
June	133.9	134.1	150.7	132.3	113.7	150.3	136.3
July	136.5	137.5	152.6	134.1	113.9	158.0	137.2
Aug.	138.6	140.0	154.4	135.3	116.3	163.3	138.8
Sept.	140.3	142.0	155.9	135.8	118.3	172.9	139.8
Oct.	143.7	147.2	157.3	136.8	120.2	174.7	140.8
Nov.	147.0	151.7	161.3	138.4	121.6	179.4	142.7
Dec.	150.7	155.4	167.0	140.1	124.7	188.4	148.4

TABLE B-6 (*Continued*)

INDEXES OF CONSUMER INSTALMENT-SALE DEBT, ADJUSTED FOR SEASONAL VARIATION, MONTHLY, BY SOURCES, JANUARY, 1929–AUGUST, 1942
(1935–1939 = 100)

End of Month and Year	Total	Automobile Dealers	Department Stores and Mail-order Houses	Furniture Stores	Household-appliance Stores	Jewelry Stores	All Other Retail Stores
1941—Jan.....	154.0	162.1	167.6	140.2	125.8	177.6	146.9
Feb.....	158.9	170.5	168.8	141.8	128.9	174.5	148.3
Mar.....	160.7	174.0	168.8	141.2	131.5	169.5	148.3
Apr.....	166.5	182.7	172.2	143.8	134.3	171.7	151.5
May....	171.6	190.2	176.1	146.2	136.9	173.7	154.1
June....	173.2	192.7	177.8	147.7	133.8	176.8	155.2
July....	175.4	194.9	182.7	149.9	133.2	185.1	156.9
Aug.....	179.6	197.8	190.1	154.7	136.8	194.1	162.2
Sept.....	177.7	194.4	188.1	152.8	138.3	205.9	161.5
Oct.....	173.6	189.3	181.4	149.4	137.8	207.9	158.2
Nov.....	169.9	183.8	178.7	147.9	134.1	217.5	156.3
Dec.....	163.9	174.6	178.2	144.8	129.6	205.1	155.7
1942—Jan.....	156.0	161.5	175.7	142.7	127.2	191.9	151.5
Feb.....	149.3	149.4	173.4	141.7	128.4	185.1	150.0
Mar.....	141.0	135.4	169.7	140.5	125.1	178.8	147.0
Apr.....	131.9	123.3	161.6	137.8	114.5	174.9	141.2
May....	120.9	111.2	148.3	131.3	103.1	163.1	131.3
June....	110.2	100.7	135.2	123.8	88.8	151.3	120.4
July....	101.0	90.3	127.0	116.8	79.9	143.8	111.8
Aug.....	91.4	78.2	118.2	109.9	72.2	140.7	104.4

Source: D. McC. Holthausen, "Monthly Estimates of Short-Term Consumer Debt, 1929–1942," *Survey of Current Business*, United States Department of Commerce, November, 1942, p. 9 ff.

TABLE B-7

Index of Consumption Expenditures by Type of Product, 1929–1941 (1929–1941 = 100)

Group	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941
Food[a] and tobacco	113.45	104.98	88.88	70.74	69.34	83.59	93.82	104.34	111.86	105.02	107.62	114.25	132.11
Clothing, accessories, and jewelry	136.82	119.76	102.21	76.47	69.25	81.27	88.76	95.25	96.78	96.24	102.09	108.10	127.03
Personal care	115.50	111.15	101.28	87.36	73.19	81.41	88.02	92.20	100.45	98.57	103.22	114.98	132.34
Housing	126.27	121.55	113.16	99.06	86.60	83.31	83.99	87.13	92.74	96.64	98.93	102.33	108.25
Household operation	120.34	107.94	94.96	76.07	72.85	82.19	87.18	98.41	105.02	98.19	106.52	116.27	134.00
Medical care and death expenses	114.47	109.79	97.57	83.26	76.63	83.70	88.63	96.16	101.70	101.30	106.96	113.27	126.69
Personal business	135.97	107.00	91.20	78.22	80.85	80.82	89.02	98.08	106.67	101.34	103.32	109.24	117.64
Transportation	132.17	106.67	86.15	67.65	66.78	77.12	89.12	103.72	110.04	94.98	107.33	118.60	139.57
Recreation	130.39	121.84	101.21	75.78	68.71	75.96	81.35	94.19	103.58	98.49	104.72	113.93	130.05
Private education and research	117.87	121.32	118.72	101.66	85.77	86.22	90.43	97.67	107.09	111.12	113.16	116.40	127.18
Religious and welfare activities	120.44	121.68	114.49	98.04	87.73	87.61	86.55	90.36	90.11	92.30	95.02	105.27	110.68
Foreign travel and remittances	179.87	168.75	109.51	98.41	79.57	79.06	84.50	99.17	110.85	96.22	88.32	55.35	50.07
Total consumption expenditures	123.54	111.97	96.75	78.25	73.33	81.90	88.92	98.10	104.31	99.72	104.70	111.54	126.98
Total commodities	122.63	108.85	91.72	71.18	68.51	81.54	90.71	101.57	107.47	100.35	106.43	114.47	134.58
Total services	125.02	117.03	104.90	89.70	81.14	82.47	86.04	92.47	99.20	98.69	101.90	106.78	114.66

[a] Includes alcoholic beverages.

Source: Computed as an index number from data in W. H. Shaw, "Consumption Expenditures 1929–1943," *Survey of Current Business* (June, 1944), pp. 6, 9, 10, and 11. In the computation of Shaw's figures, all commodities and services that are used both by business and consumers have been consumer allocated. For example, the value of new cars included in transportation refers solely to cars destined for nonbusiness use; the value destined for business use is not included.

TABLE B-8

Distribution of Consumption Expenditures, by Type of Product, Selected Years and Average, 1929–1941

(In millions of dollars)

Group	1929	1933	1937	1938	1941	Average 1929–1941
Food and tobacco	21,722.6	13,276.6	21,419.7	20,109.7	25,295.6	19,148
Clothing, accessories, and jewelry	11,138.5	5,637.4	7,878.9	7,834.6	10,341.2	8,141
Personal care	1,112.3	704.8	967.3	949.2	1,274.4	963
Housing	11,273.3	7,732.0	8,279.8	8,628.3	9,664.4	8,928
Household operation	11,063.7	6,697.5	9,655.3	9,027.8	12,319.1	9,194
Medical care and death expenses	3,558.9	2,382.5	3,161.7	3,149.5	3,938.7	3,109
Personal business	3,412.8	2,029.3	2,677.3	2,543.7	2,952.7	2,510
Transportation	8,031.8	4,058.2	6,687.4	5,772.1	8,481.7	6,077
Recreation	4,275.4	2,253.0	3,396.4	3,229.4	4,264.3	3,279
Private education and research	651.8	474.3	592.2	614.5	703.3	553
Religious and welfare activities	1,189.9	866.8	890.3	911.9	1,093.5	988
Foreign travel and remittances	994.7	440.0	613.0	532.1	276.9	553
Total consumption expenditures	78,425.7	46,552.4	66,219.3	63,302.8	80,605.8	63,481
Total commodities	48,132.2	26,891.0	42,183.3	39,388.2	52,821.5	39,250
Total services	30,293.5	19,661.4	24,036.0	23,914.6	27,784.3	24,231

Source: W. H. Shaw, "Consumption Expenditures, 1929–1943" *Survey of Current Business* (June, 1944).
See notes to Table B-7. Because of rounding, columns do not necessarily add.

TABLE B-9

PERCENTAGE OF FARM FAMILIES HAVING A NET INCREASE OR DECREASE IN BALANCES OWED ON INSTALMENT PURCHASES AND AVERAGE AMOUNT OF NET CHANGE IN BALANCES BY INCOME, ILLINOIS–IOWA FARM ANALYSIS UNIT, 1935–1936

Family-income Class (In dollars)	All						Automobiles		Business Equipment	
	Families Owing Balances at End of Year	Families Having Net Increase	Families Having Net Decrease	Average Net Change (Based on all families)	Average Net Increase (Based on families having)	Average Net Decrease (Based on families having)	Families Having Net Increase	Families Having Net Decrease	Families Having Net Increase	Families Having Net Decrease
	Pct.	*Pct.*	*Pct.*	*Dol.*	*Dol.*	*Dol.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*
All incomes	13.7	12.4	4.9	27	333	292	4.6	1.2	7.2	3.7
$ 0–$ 249	7.7	7.7	0.0	57	735	–	0.0	0.0	7.7	0.0
250– 499	8.5	8.5	2.8	19	278	174	1.9	0.0	4.7	1.9
500– 749	12.1	10.2	3.4	23	252	92	4.9	1.0	5.3	1.0
750– 999	12.8	12.0	1.9	28	253	138	4.3	0.4	5.4	1.9
1,000– 1,249	14.7	14.7	2.0	55	416	303	5.6	0.0	9.1	2.4
1,250– 1,499	14.0	11.1	5.8	33	387	174	2.9	1.4	9.2	2.4
1,500– 1,749	17.4	16.8	6.2	14	217	359	5.6	1.9	8.1	5.6
1,750– 1,999	17.3	15.5	8.2	28	375	369	3.6	0.9	10.0	8.2
2,000– 2,499	16.5	12.9	10.1	10	300	284	7.9	5.0	7.2	5.8
2,500– 2,999	16.7	15.4	7.7	39	414	318	6.4	0.0	9.0	7.7
3,000– 3,999	4.8	4.8	4.8	–	729	729	3.2	0.0	3.2	6.3
4,000– 4,999	12.5	12.5	12.5	13[a]	42[b]	150[b]	6.2	6.2	0.0	6.2
5,000– 9,999	10.0	10.0	20.0	53[a]	800[b]	663	0.0	5.0	10.0	20.0

[a] Decrease. The other changes are increases.
[b] Average based on fewer than three cases.
Source: U. S. Department of Agriculture, *Changes in Assets and Liabilities of Families; Five Regions*, Miscellaneous Publication No. 464, p. 39. The sample included only white nonrelief families including husband and wife, both native-born.

TABLE B-10

AUTOMOBILES PURCHASED NEW AND USED, ON CASH AND ON INSTALMENT BASIS, AND AVERAGE GROSS PURCHASE PRICE, BY INCOME, PENNSYLVANIA-OHIO FARM ANALYSIS UNIT, 1935-1936

Family-income Class (In dollars)	Families	Automobiles Purchased During the Year on Specified Terms									Gross Price of Automobiles Purchased[b]	
		All	New				Used				New	Used
			All[a]		Cash	Instalments	All[a]		Cash	Instalments		
	No.	No.	No.	Pct.	No.	No.	No.	Pct.	No.	No.	Dol.	Dol.
All incomes	2,254	416	129	31.0	115	14	287	69.0	245	42	734	270
$ 0-$ 249	21	1	0	0.0[c]	0	0	1	100.0[c]	1	0	—	1706[d]
250- 499	100	9	3	33.3	1	2	6	66.7[c]	2	4	620	113
500- 749	209	21	3	14.3	3	0	18	85.7	14	4	783	194
750- 999	304	45	6	13.3	5	1	39	86.7	31	8	726	204
1,000- 1,249	294	44	8	18.2	8	0	36	81.8	30	6	751	187
1,250- 1,499	312	51	18	35.3	16	2	33	64.7	29	4	729	228
1,500- 1,749	267	65	18	27.7	16	2	47	72.3	42	5	742	286
1,750- 1,999	197	43	16	37.2	15	1	27	62.8	27	0	691	272
2,000- 2,499	254	57	18	31.6	17	1	39	68.4	31	8	741	345
2,500- 2,999	135	33	15	45.5	11	4	18	54.5	16	2	748	319
3,000- 3,999	116	28	14	50.0	13	1	14	50.0	13	1	764	435
4,000- 4,999	26	12	4	33.3	4	0	8	66.7	8	0	815	361
5,000- 9,999	19	7	6	85.7[c]	6	0	1	14.3[c]	1	0	666	400[d]

[a] Percentages are based on the total number of automobiles purchased during the report year.
[b] Averages are based on the corresponding number of new or used automobiles purchased.
[c] Percentage based on fewer than ten cases.
[d] Average based on fewer than three cases.

Source: U. S. Department of Agriculture, *Family Expenditures for Automobile and Other Transportation: Five Regions*, Miscellaneous Publication No. 415, p. 14. The sample included only white nonrelief families including a husband and wife, both native-born.

TABLE B-11

Percentage of Village Families Having a Net Increase or Decrease in Balances Owed on Instalment Purchases, and Average Amount of Net Change in Balances, by Income, Middle Atlantic and North Central Village Analysis Unit, 1935–1936

Family-income Class (In dollars)	Balances Owed on Instalment Purchases: All						Automobiles		Business Equipment	
	Families Owing Balances at End of Year	Families Having Net Increase	Families Having Net Decrease	Average Net Change (Based on Families having)	Average Net Increase (Based on families having)	Average Net Decrease (Based on families having)	Families Having Net Increase	Families Having Net Decrease	Families Having Net Increase	Families Having Net Decrease
	Pct.	*Pct.*	*Pct.*	*Dol.*	*Dol.*	*Dol.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*
All incomes	15.4	13.9	5.3	12	130	114	5.7	1.5	0.6	0.3
$ 250–$ 499	6.0	4.8	0.0	5	115	–	1.2	0.0	0.0	0.0
500– 749	13.3	13.1	2.2	12	100	37	4.2	0.6	0.6	0.0
750– 999	15.6	14.5	5.6	7	67	55	3.5	0.7	0.3	0.3
1,000– 1,249	14.6	12.7	4.9	9	97	71	3.5	1.6	0.7	0.0
1,250– 1,499	19.5	17.4	6.3	18	142	108	8.9	2.0	0.4	0.2
1,500– 1,749	17.0	14.8	7.4	15	163	118	9.2	2.1	0.0	0.0
1,750– 1,999	17.4	16.2	6.8	19	178	148	8.9	2.1	0.9	1.3
2,000– 2,499	15.8	15.4	4.7	17	197	280	7.5	2.4	0.8	0.4
2,500– 2,999	10.2	7.6	6.8	4	241	213	5.1	3.4	0.8	0.0
3,000– 3,999	8.6	7.1	8.6	1[a]	215	196	4.3	1.4	2.9	1.4
4,000– 4,999	14.3	14.3	0.0	58	408	–	4.8	0.0	0.0	0.0
5,000– 9,999	10.0	10.0	0.0	25	250[b]	–	10.0	0.0	0.0	0.0

[a] Decrease. The other changes are increases.
[b] Average based on fewer than three cases.

Source: U. S. Department of Agriculture, *Changes in Assets and Liabilities of Families: Five Regions.* Miscellaneous Publication No. 464, p. 33. The sample included only white nonrelief families including a husband and wife, both native-born.

TABLE B-12

Automobiles Purchased New and Used, on Cash and on Instalment Basis, and Average Gross Purchase Price, by Income, Middle Atlantic and North Central Village Analysis Unit, 1935–1936

Family-income Class (In dollars)	Families	All	Automobiles Purchased During the Year on Specified Terms: New: All[a]		New: Cash	New: Instalments	Used: All[a]		Used: Cash	Used: Instalments	Gross Price of Automobiles Purchased[b]: New	Gross Price: Used
	No.	*No.*	*No.*	*Pct.*	*No.*	*No.*	*No.*	*Pct.*	*No.*	*No.*	*Dol.*	*Dol.*
All incomes.....	3,042	650	302	46.5	192	106	348	53.5	202	143	743	247
$ 250–$ 499...	84	4	1	25.0[c]	0	1	3	75.0[c]	3	0	800[d]	82
500– 749...	360	42	6	14.3	3	3	36	85.7	20	16	650	154
750– 999...	572	65	7	10.8	5	2	58	89.2	32	24	776	152
1,000– 1,249...	575	81	14	17.3	9	5	67	82.7	40	27	770	229
1,250– 1,499...	461	120	37	30.8	18	19	83	69.2	46	36	706	272
1,500– 1,749...	283	74	40	54.1	20	19	34	45.9	18	16	697	280
1,750– 1,999...	235	74	45	60.8	32	13	29	39.2	17	12	745	305
2,000– 2,499...	253	94	70	74.5	44	26	24	25.5	17	7	723	379
2,500– 2,999...	118	50	41	82.0	28	12	9	18.0	6	3	757	467
3,000– 3,999...	70	25	21	84.0	16	4	4	16.0	2	2	770	375
4,000– 4,999...	21	12	12	100.0	10	1	0	0.0	0	0	971	–
5,000– 9,999...	10	9	8	88.9[c]	7	1	1	11.1[c]	1	0	811	350[d]

[a] Includes a few families that did not specify terms of purchase. Percentages are based on the total number of automobiles purchased during the report year.
[b] Averages are based on the corresponding number of new or used automobiles purchased.
[c] Percentage based on fewer than ten cases.
[d] Average based on fewer than three cases.

Source: U. S. Department of Agriculture, *Family Expenditures for Automobile and Other Transportation: Five Regions*, Miscellaneous Publications No. 415, p. 48. The sample included only white nonrelief families including a husband and wife, both native-born.

TABLE B-13

INSTALMENT BALANCES (SHARECROPPERS, NEGROES): PERCENTAGE OF FAMILIES HAVING A NET INCREASE IN BALANCES DUE ON INSTALMENT PURCHASES AND AVERAGE NET INCREASE, SELECTED INCOME CLASSES, SOUTHEAST WHITE SHARECROPPER AND NEGRO ANALYSIS UNITS, 1935–1936

Family-income Class (In dollars)	Negro Families		Negro Farm Operators		Negro Sharecroppers		White Sharecroppers	
	Southeast Small Cities	Southeast Villages	North Carolina—South Carolina	Georgia—Mississippi	North Carolina—South Carolina	Georgia—Mississippi	North Carolina—South Carolina	Georgia—Mississippi
	Percentage[a] of Families Having Net Increases in Balances Due on Instalment Purchases							
$ 0–$ 249	14.9	6.2	7.1	3.2	9.5	2.4	0.0[b]	0.0
250– 499	17.0	12.7	9.8	0.6	10.2	1.6	9.5	1.1
500– 749	24.1	20.5	13.0	2.0	5.8	5.6	7.8	3.5
750– 999	33.0	24.0	4.8	4.4	6.0	6.4	8.7	1.3
1,000– 1,249	26.0	18.2	11.1	6.4	7.1	–	9.5	–
1,250– 1,499	10.0	36.4	8.3	11.8	9.1	–	13.0	–
	Average[c] Net Increase in Balances Due on Instalment Purchases (Based on families having)							
$ 0–$ 249	$ 17	$ 58	$ 54[b]	$ 40[b]	$ 22	$ 11	–	–
250– 499	27	37	80	35[b]	44	52	$ 29	$ 56[b]
500– 749	40	46	90	32	36	69	59	47
750– 999	95	80	62	45	124	95	109	50[b]
1,000– 1,249	118	58	181	50	135	–	114	–
1,250– 1,499	55[b]	308	284[b]	228[b]	250[b]	–	93	–

[a] Percentages are based on the total number of families in each class.
[b] Average based on fewer than three cases.
[c] Averages are based on the corresponding number of families in each class having a net increase in balances due on instalment purchases.

Source: U. S. Department of Agriculture, *Changes in Assets and Liabilities of Families: Five Regions*, Miscellaneous Publication No. 464, p. 79. Sample included only nonrelief families including a husband and wife, both native-born.

TABLE B-14

PERCENTAGE OF FAMILIES HAVING A NET INCREASE IN BALANCES DUE ON INSTALMENT PURCHASES AND AVERAGE NET INCREASE; SELECTED INCOME CLASSES, 9 SMALL-CITY AND VILLAGE ANALYSIS UNITS IN 22 STATES, 1935–1936

Analysis Unit	Net Increases in Balances Due on Instalment Purchases					
	Percentage of Families Having[a]			Average Net Increase (Based on families having)[b]		
	Income Class $500–$749	Income Class $1,250–$1,499	Income Class $2,500–$2,999	Income Class $500–$749	Income Class $1,250–$1,499	Income Class $2,500–$2,999
	Pct.	*Pct.*	*Pct.*	*Dol.*	*Dol.*	*Dol.*
SMALL CITIES						
North Central	10.9	16.9	14.6	92	160	148
Plains and Mountain	21.9	29.3	22.7	101	175	236
Pacific	12.7	34.8	24.6	44	167	232
Southeast	21.7	40.4	29.0	45	126	256
VILLAGES						
New England	11.9	24.2	22.6	51	141	214
Middle Atlantic and North Central	13.1	17.4	7.6	100	142	241
Plains and Mountain	16.7	19.3	10.5	85	130	108
Pacific	13.1	26.0	23.0	176	165	233
Southeast	19.5	25.5	25.8	109	124	164

[a] Percentages are based on the total number of families in each class.
[b] Averages are based on the corresponding number of families in each class having a net increase in balances due on instalment purchases.

Source: U. S. Department of Agriculture, *Changes in Assets and Liabilities of Families: Five Regions*, Miscellaneous Publication No. 464, p. 50. The sample included only white nonrelief families including a husband and wife, both native-born.

APPENDIX C

A SELECTED BIBLIOGRAPHY ON INSTALMENT BUYING

This bibliography is a guide to further reading rather than a statement of the sources from which the present author has drawn his materials. It has been restricted to studies that bear directly upon the economics of instalment buying, make a substantial contribution to knowledge or opinion, and concern themselves with problems of more than passing interest. A number of items that were useful in certain parts of this study, although they were not themselves directed toward instalment buying, are cited in the footnotes but omitted here. Authors and titles of specific articles in such sources as the *Credit Management Year Book* are cited in the footnotes but not repeated here. Most of a very large literature concerned with fugitive problems such as the probable effects of a major depression on defaults as they looked in the 1920's, the objectives and accomplishments of Regulation W, and the significance of the liquid assets accumulated by consumers during the second world war has been omitted. An occasional appearance of the double "l" in "installment" conforms to the spelling in the original.

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